THE FREEMAN

IDEAS ON LIBERTY

Where Are the Voluntarists?

A Closer Look at the Debt and Deficit

Mises: The Impact of Ideas

JANUARY 1991

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IDEAS ON LIBERTY

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PERSPECTIVE

Arguments and Facts

"[T]he capacity for individual human action derives from the challenge and strength of free enterprise." Those are the words of Vladislav Starkov, editor of the largest-selling publication in the world, when interviewed by London-based journalist Gitta Sereny (*The Independent*, July 1, 1990).

In 1978, Starkov became editor of *Argumenty i Fakty (Arguments and Facts)*, a small dissident weekly in the U.S.S.R. with a circulation of only 10,000. Now, *Argumenty i Fakty* sells 34 million copies a week. (By comparison, the circulation of *Komsomolskaya Pravda* is 17 million, that of *Pravda* nine million.) Starkov stays in touch with his readers through their thousands of letters. He keeps the size of *Argumenty i Fakty* small, thin, easy-to-hold, its articles short and serious, provoking argument, asking questions.

"A few years ago," Starkov told Sereny, "I didn't even know what the free market was. But then, travelling, I saw how other people lived, with different laws, and yet, all of them better than we. I realized then we'd been lied to all these years, when the West had been portrayed to us either as money-grabbing beasts or as poverty-stricken victims."

The Soviet Union's greatest problem, in Starkov's view, is the bureaucrats. "Excellence is their greatest enemy," Starkov told Sereny, "for it demands their own destruction: the ruthless pruning of millions of totally useless red-tape-ists all over this country, who have almost literally taught whole generations *not* to work."

When asked what chance there was for an economic miracle and a total social turnabout in the U.S.S.R., Starkov replied, "Every chance in the world—if every adult, and every child too, in our country can be shown the happiness of individual achievement."

—Bettina Bien Greaves

Economic Justice

The analogy between economic outcomes and games is helpful in thinking about "just" or "fair" incomes (or wages). The fairness of a game is typically evaluated on the basis of rules. If the rules

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of a game are clearly stated, known and accepted in advance, and impartially enforced, the outcome of the game is usually considered fair. Thus, the outcome of a game is not used as a test of the game's fairness. The fact that the Nebraska football team typically defeats most of its opponents, for example, does not suggest that the games it plays are unfair. Similarly, justice or fairness in the economic area should not be judged on the basis of economic outcomes.

—E. C. Pasour, Jr.
Agriculture and the State

Soviet Managers

Westerners often think that there is a dearth of talent and creativity in the Soviet Union. Nothing could be further from the truth. Soviet managers burst with creativity, but it is misdirected. Their talents are drained in machinations to overcome the irrational system in order to meet their plans. The official system does not work, and none but the most creative could survive in this environment and be successful. There is no reason that boundlessly inventive Soviet managers could not succeed if they were set free to work under a market system. Escaping the discipline of the market has made each manager's life hell and has caused disorganization of production on a grand scale.

—Paul Craig Roberts and Karen LaFollette
Meltdown: Inside the Soviet Economy

Free Speech and Property Rights

Let's say that I spray graffiti on the side of my house. Certainly I have a right to do this. After all, I do have a right to free speech.

Now let's say that I spray graffiti on someone else's house without permission. But the police come by and make me stop. Would this be censorship? Doesn't this violate my First Amendment right to free speech? Absolutely not! This is not a question of free speech. It is a question of my vandalizing someone else's property. Simply put, I can spray messages on my own house, but not on someone else's.

Likewise, let's say that I have some paper and some ink. By golly, I can start a magazine. And I can decide exactly what goes in it, because it is my magazine.

Now let's say that I mail a letter to the editor of *Time* magazine. The editor decides not to print it. Isn't this censorship? Doesn't this violate my First Amendment right to free speech? Absolutely not! Again, I can decide what goes into my magazine, but not into someone else's.

The point I am trying to make is that I never look at anything as just an issue of free speech. I look upon the aforementioned situations as issues of property rights. Simply put, the owner of any piece of property has a right to use it however he or she desires, as long as it is not used to harm or threaten to harm someone else or their property. Thus, I can cover my own house in graffiti, but not someone else's. I can decide what goes into my magazine, but not someone else's. The only way that free speech can properly be defined is by the existence of property rights.

—Daniel Alman, writing in
The Pitt News, University of Pittsburgh

Property and the Environment

It is no accident that serious environmental problems and underdevelopment both occur where a secure system of property rights is lacking. Investment and the forbearance necessary for saving will not occur if people have doubts that they will reap the rewards of their efforts. The same requirement for secure rights exists for socially desirable environmental decisions.

People will not exercise forbearance and protect elephants that destroy their crops if they do not benefit from preserving the elephant. They will turn forests into cropland rather than preserve them if the only way they can own land is by cutting trees and sowing crops (as is the case for homesteaders in Brazil). They will fail to preserve trees for firewood if the trees are available now but future rights to them are uncertain.

An owner of property has an incentive to be a good steward. If property is well cared for, it will be more valuable. Its market value today reflects the benefits to be realized in the future.

—Jane S. Shaw and Richard L. Stroup,
writing in the Winter 1990 issue of
International Health & Development

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80 Million Volunteers, But Where Are the Voluntarists?

by James L. Payne

Volunteering is in the air. Magazines and newspapers run features on the helpful activities of volunteers. Charitable donations top $114 billion, and a Gallup poll finds that 80 million Americans contribute some of their time to community activities.

Unfortunately, this highly promising impulse toward philanthropy and volunteering still lacks a sense of its own identity. Consider, for example, the orientation of the American Cancer Society. Starting with the leadership of Mary and Albert Lasker in the 1930s, this organization's focus has been to lobby for Federal funding of cancer research. In the official history of the organization, a co-worker approvingly summarized the Laskers' strategy: "The Lasker fortune could have established a research institution. . . . But Albert Lasker thought in bigger terms of involving the national treasury through appropriations. And the way to that goal was to organize a lobby for biomedical research allocations."[1]

Rather than addressing the cancer problem in a truly private, independent way, the Laskers spent their money strengthening the governmental approach. As a result of their activities, today we have a larger government, more taxes, and more bureaucracy.

In order to stand as an independent social movement, the voluntary sector needs to have its own philosophy, its creed of "voluntarism." The voluntary approach has to be seen as distinct from, even the opposite of, the governmental approach. By definition, "voluntary" means not forcing people, but relying instead on persuasion and education. Government, on the other hand, uses policemen, soldiers, and tax collectors to force people to do what it wants them to do. In a world torn with violence and killing, voluntarism's rejection of force is a precious distinction indeed.

The voluntary approach should also be different from government in the motives it appeals to. It should rely on, and attempt to stimulate, generosity and helpfulness. In this way, it can lay the foundation for a more caring, sensitive society. Government's coercive approach goes in the opposite direction: it assumes people are too selfish to help their communities on their own, and it reinforces this selfishness by trying to force them to do so.

Sadly, this distinctive view of voluntary action seems almost unknown in the volunteer sector today. Most leaders of volunteer organizations are, like the Laskers, statists: they look to government to handle society's problems. At the national level, hundreds of "volunteer" organizations serve as lobbies pressuring Congress to appropriate tax monies for their causes.

A similar pattern of governmental involvement takes place at the local level. Well-meaning, dedicated volunteers take up a worthy

James L. Payne has taught political science at Wesleyan, Yale, Johns Hopkins, and Texas A&M University. He is working on a book about the potential of voluntary problem-solving systems as alternatives to government.

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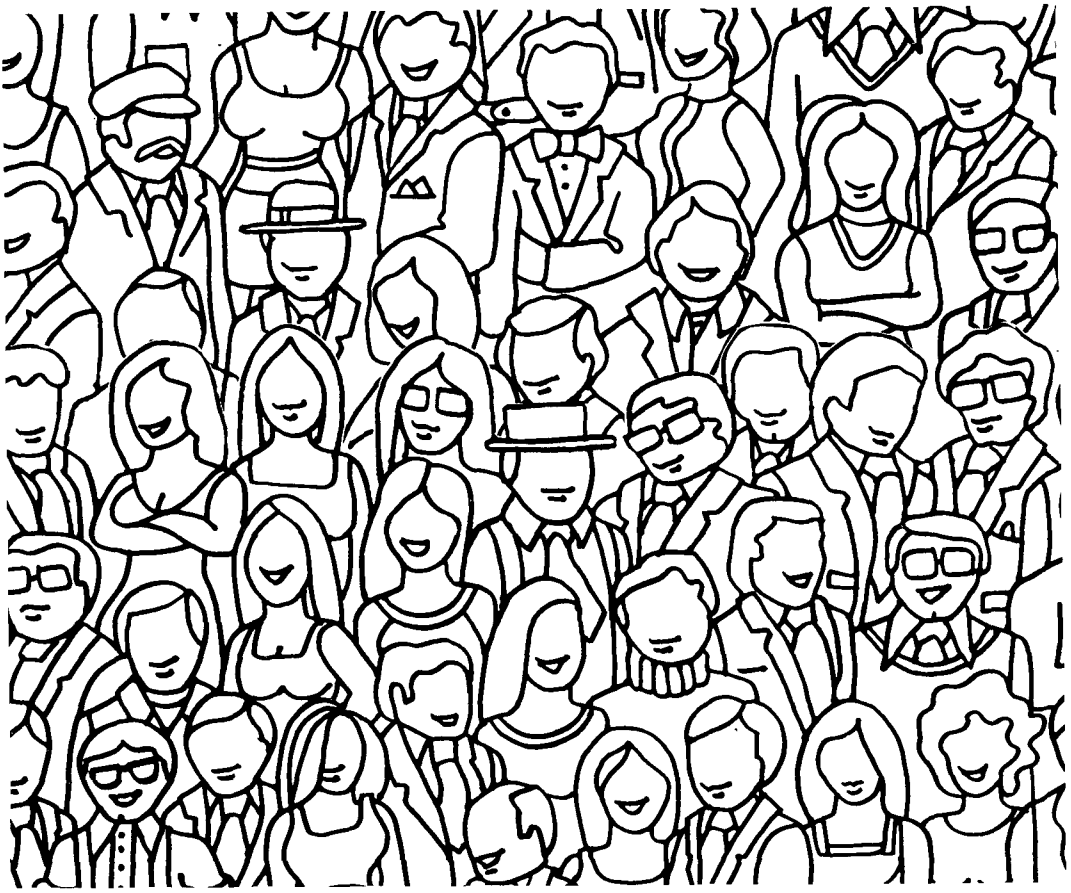

cause, but then turn to government. In one case, a public-spirited, voluntary recycling arrangement was converted into a government program once it was successful. In another, a local group raised private money to build an animal shelter, only to ask local government to finance its operation. Just about every local arts group seeks state and Federal grants.

Few seem to notice the harm these government connections do to voluntary groups. They bring red tape, a loss of independence, a loss of idealism, and a decline in morale and the spirit of self-sacrifice in the organization. Government funding also makes it somewhat hypocritical for a group to claim to be "voluntary," since this money is raised through the coercion of the tax system.

The entwining of the voluntary sector with government has reached the extreme of having governmental "volunteer" programs. We now have the federal ACTION agency with its VISTA volunteers and Retired Senior Volunteers. Plans are afoot to expand this pattern in a Federal "national service" program for younger volunteers.

A voluntarist would view these arrangements with horror. He sees voluntary action as the problem-solving system of the future that will replace the burdensome and inept governmental method used today. To have government control and fund the volunteer sector is to make Ariel the slave of Caliban.

Volunteers are at the crossroads. They can continue down the path of "statist volunteering," contributing to the expansion of the existing tax-and-spend governmental system. Or, they can become voluntarists, and work toward a brighter future based on caring and tolerance. To travel this road, however, they will need their own guidebook, a guidebook whose first recommendation is: Have nothing to do with government. □

1. Michael B. Shimkin, quoted in Walter S. Ross, *Crusade: The Official History of the American Cancer Society* (New York: Arbor House, 1987), p. 213.

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A Closer Look at the Debt and Deficit

by Robert Higgs

The federal government's budget deficits and the mounting public debt to which they give rise are not, in themselves, the greatest problems facing the American people today. Relative to the size of the U.S. economy, the government debt was much greater in the past, during the immediate post-World War II period, than it is now. Yet those years are viewed by many as an economic golden age. Still, to admit that the government's conduct of its fiscal affairs is not the most pressing problem is not to say that it is no problem at all. It is serious, but we need to keep it in perspective.

The government debt is widely misunderstood, even by some professional economists who ought to know better and whose pronouncements contribute to the confusion. The misunderstandings arise sometimes because people think the public debt is like a private debt, at other times because they think the public debt is not like a private debt. In truth, there are similarities and differences, and one must sort them out to get at the truth.

Similarities exist because a legal debt is a legal debt: all borrowers, whether public or private, must either pay the contracted interest and principal when they come due, or default. Servicing a debt is costly for anybody, but if the borrower opts for the alternative and defaults, some unpleasant consequences will ensue, including a diminished ability to borrow again.

The main difference between public and private debt is that the government has some options not available to private borrowers for effecting what amounts to default. Since the government can inflate the money stock, causing prices to tend to rise and thereby reducing the real value of all assets denominated in units of money, it can effectively default on its promises to repay lenders, to the extent that the lenders did not correctly anticipate the inflation when they made the loans. Notice, however, that the government can always defeat the anticipations of lenders. All it has to do is cause an unexpectedly rapid inflation. Because it has unlimited capacity to increase the money stock, it always holds the power to bring about this kind of surprise.

The government could simply repudiate its obligations outright, as it did in the 1930s when it refused to pay the gold it had promised to purchasers of gold-denominated government bonds, but default by means of inflation is more likely. To some extent the government has been doing this for decades. In the present fiat money regime, it can increase the rate of its default whenever the political and monetary authorities decide to do so.

Early in 1990 the official government debt reached $3 trillion, but—strange to say—the true debt can be viewed as either bigger or smaller.

One can say that the true debt is bigger because the government has entered into extremely large guarantees of private loans and of deposits in banks and other financial institutions, such as the savings and loan industry. In the event that the loans or deposits go bad, the government is committed to making up the shortfalls. In a proper set of accounts, the present value of the government's future obligations in the event of such disasters

Robert Higgs is the Thomas F. Gleed Professor in the Albers School of Business and Director, Center for the Study of Social Dynamics, Seattle University.

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would be added to its other liabilities. The current government accounts make no such addition. Indeed, it would be extremely controversial to decide how much to add. But the fact that some addition needs to be made is beyond dispute.

Internal Debt

On other grounds, the official debt can be viewed as overstated. A large part of it, about 25 percent, is held within the government. That is, the Treasury owes money to other Federal agencies, especially the Social Security Administration. The internal debt is more or less "funny money." It is also a misleading way to keep the government's accounts.

There is, for example, no real Social Security Trust Fund—that's just a scam to reassure a skeptical public. In fact, the Social Security Administration collects Social Security taxes and hands the money over to the Treasury, which spends it. In return, the Social Security Administration receives government bonds, which are simply promises that the Treasury will pay fixed sums of money at specified dates in the future. But because the Treasury itself has no big hoard of funds, when future Social Security benefits come due, they will be payable only if the government collects enough taxes at that time (or borrows once again) to make the payments. The same thing can be said about the other bond holdings within the government. If the government repudiated all its internally held debt, nothing real would be affected, so this part of the debt differs fundamentally from the part held by the public.

Another portion of the debt, about 9 percent, is held by the Federal Reserve System, the nation's central bank, which is nominally private but actually a creature of the government. Because, by law, the Federal Reserve cannot earn more than a limited amount, much of the interest it receives on its holdings of government bonds is immediately returned to the Treasury, revealing once again that intramural holdings of government debt are essentially different.

Subtracting the roughly one-third of the total debt held either in government accounts or by the Federal Reserve, we arrive at a figure of about $2 trillion for the debt held by others in 1990. The holders include commercial banks, insurance companies, corporations, state and local governments, and individuals, among others. Foreigners hold about $400 billion, that is, about 20 percent of the amount held outside the government and the Federal Reserve.

The amount of the national debt is one of those numbers so huge that the ordinary mind can't grasp it. One must view it relative to some standard. The most common benchmark is the Gross National Product (GNP), the value of all newly produced goods and services the whole economy turns out in a year. Currently the debt is equal to about 57 percent of the GNP. The proportion has been rising for 15 years, and rose especially rapidly during the 1980s. Still, it stands considerably below the ratio that existed in the 1950s. Keeping the relative magnitude of the debt in perspective is a good idea, lest we panic or allow ourselves to be panicked by politicians who seek only to raise taxes.

Historically the government ran persistent deficits only during wars or business slumps. Beginning in the 1960s, however, deficits became chronic. They now occur in good times and bad. Only once since 1960 did the federal government not run a deficit. (Fiscal year 1969 was the single exception.) In the 1980s the size of the deficits shattered all records for peacetime, rising as high as $220 billion in a single year.

Pernicious Deficits

The deficits of the past three decades can be viewed as pernicious for many reasons. Consider just three of the more important ones.

First, the economic case against deficits. When the government borrows money, it diverts private savings to uses that have a smaller component of investment and a larger component of consumption. By bidding up interest rates, government borrowing "crowds out" borrowers who would have made investments in the private economy, while the funds the government borrows are used overwhelmingly for consumption. The result is that the nation's capital stock, the aggregate of all durable resources that enhance the economy's productive capacity, grows less rapidly. As a consequence, future standards of living will be lower than they otherwise would have been. Our children and grandchildren will reap smaller harvests because our own generation is feasting on some of the seed corn.

Second, the moral case against deficits. When

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"The soothing apology for the debt, that 'we owe it to ourselves,' is a fallacy."

the service charges on the debt come due in the future, the obligation to make these payments, by suffering some form of taxation, will fall on persons who will have had absolutely no choice about entering into the debt contract and will have received no benefit from it. Unless the government defaults, which would be morally reprehensible and economically harmful in itself, individuals in the future will be stuck with higher taxes, either directly or via inflation, than they otherwise would have had to bear.

The fact that in the future some individuals will receive the interest and principal on bonds they inherited in no way diminishes the force of the argument. The good fortune of the legatees does not cancel the injustice done to others. And justice has to do with individuals, not classes or generations. The soothing apology for the debt, that "we owe it to ourselves," is a fallacy. The persons who will owe it are not identical to the persons to whom it will be owed.

To gratuitously impose financial obligations on our children and grandchildren for the sake of our own present enjoyment is moral arrogance at best. It bespeaks a contempt for others well captured by the famous remark attributed to Madame de Pompadour, mistress of Louis XV: *après nous le déluge* (after us, the flood), or in today's terms, the future be damned.

Third—and perhaps worst of all—deficits are deplorable because they are symptomatic of a political system gone corrupt to the core. Notwithstanding all the political rhetoric to the contrary, the government runs chronic deficits because the members of Congress want to run them. They make this choice because they value their re-election more than they value the interests of the general public. Even a cursory examination of the evidence shows unmistakably that the emergence of chronic deficits since 1960 has resulted from Federal spending growth, not from decreased government revenues.

Politicians are afraid to rein in the runaway spending so that it will match revenues, because they don't want to offend those who receive the benefits financed by the government—goodies paid for sooner or later by taxpayers. Much of the government's spending is channeled to well-organized political pressure groups whose support is viewed as essential by incumbents seeking re-election. Just think of all those PACs whose contributions loom so large in Congressional campaigns. Members of Congress are unwilling to take fiscal actions that might jeopardize the electoral support of the special interest groups. The deficits reflect a political system responsive to special interests at the expense of the general interest of the public now, as well as the general interest of future generations.

Notice, however, that the system works nearly to perfection for the politicians. In the elections of 1986 and 1988, when public concern about the deficit ran very high, more than 98 percent of all House incumbents seeking re-election were returned to office. So citizens are saddled not only with large, persistent deficits but with a cynical, self-perpetuating ruling elite.

Unfortunately, given the American political system as presently constituted, individual citizens acting on their own can do virtually nothing to remedy these ills. Because people rarely organize for political action except on behalf of some narrow interest, no one is likely to create an effective political movement in opposition to continuing massive deficits. So far as the government's fiscal irresponsibility is concerned, the immediate future probably will be no different from the immediate past. The deficit will continue to be like bad weather: everybody will complain about it, but nobody will do anything about it. □

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Politics, Economics, and the Destructiveness of Deficits

by Dwight R. Lee and Cynthia D. Lee

Are chronic budget deficits a threat to the economy? The general public believes that budget deficits are something to fear, but economists are not so sure, and Congress doesn't seem to care.

It is difficult to argue that either Congress or economists are wrong, given their respective concerns, even though the public is justified in its worry over the economic consequences of persistent Federal deficits. The public's concern is real, but it's an unfocused background concern that fails to translate into significant political pressure. So why should the concern over deficits by members of Congress go beyond rhetoric when they can spend the Federal budget into one large deficit after another and still look forward to re-election rates in excess of 98 percent?

Economists don't have to worry about being re-elected, but they are worried about making obviously foolish predictions, and they have noticed that the huge budget deficits of the 1980s have precipitated none of the adverse consequences predicted by deficit doomsdayers. Economists are concerned with explaining the effect of budget deficits on such economic variables as interest rates, inflation, and the savings rate. These variables have not responded to large deficits as predicted by standard macro-economic models, and economists have been busy developing alternative models explaining why they haven't. A major conclusion of these models is that budget deficits are almost completely neutral in their effect on the economy. An increasing number of economists have concluded that deficits have little effect, either positive or negative, on the economy, and see public concern over deficit spending as unfounded.

While economic analysis can provide useful insights, it is always risky to dismiss the concerns of the public. The public may not have a sophisticated understanding of economic analysis, but this is not necessarily a liability. Sophistication in the analysis of narrow economic relationships can divert attention from broader features of the political economy that are more relevant to our economic prospects. In particular, budget deficits may reflect flaws in the political decision-making process that are a threat to economic performance quite apart from any direct economic impact of the deficits themselves.

In this essay we discuss briefly the argument that budget deficits are unlikely to have the adverse economic effects commonly attributed to them. It is pointed out, however, that the theoretical basis for the view that deficits are benign is hard to reconcile with the undeniable fiscal impulses of politicians. And given these impulses, the greater the political latitude to rely on deficit

Dwight R. Lee is the Ramsey Professor of Economics at the University of Georgia, Athens. Cynthia D. Lee served as a research assistant in preparing this paper. *This paper is based on research done when Dwight Lee was the John M. Olin Visiting Scholar at the Center for the Study of American Business during the 1988-89 academic year.*

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financing the greater will be the level of government spending. Even if deficits do not, for example, noticeably crowd out investment directly through interest-rate increases, the political opportunity afforded by deficit spending can facilitate the expansion of public sector activity, which necessarily crowds out private sector activity. The consequences of substituting the less productive public sector for the more productive private sector may not register immediately in statistical measures of key economic variables. But the long-run economic consequences of such a substitution are no less destructive because they go unnoticed by econometric studies and the myopic political process.

Do Deficits Matter?

What is the effect on the economy of an increase in deficit spending? The best known answer to this question is given by the standard Keynesian model which predicts that increasing the deficit will increase aggregate consumption demand, thereby reducing the total savings in the economy and increasing the real interest rate. With a higher interest rate there will be a reduction in investment, and the deficit spending will have crowded out some productive capital.

Harvard economist Robert Barro has attacked the standard Keynesian view by arguing that, under what he believes are plausible conditions, it makes no difference whether government spending is financed by taxing or by borrowing.[1] The argument begins with a proposition that dates back to the early 19th century, when it was put forth by the English economist David Ricardo. Ricardo argued that if government financed, for example, an additional $100 of spending by borrowing, then, instead of being responsible for $100 in tax payments immediately, taxpayers would be responsible for $100 plus accumulated interest at a later date. But the present value of the $100 plus interest later is equal to $100 now, so the taxpayer who expects to be paying taxes later will find deficit financing no less costly than tax financing. The taxpayer will be indifferent as to whether borrowing or taxing is used to finance government spending.

If borrowing versus taxing is a matter of indifference to taxpayers, then it is also a matter of indifference as far as important economic variables such as the interest rate and investment are concerned. Assume that government increases the budget deficit by reducing taxes without reducing spending. Taxpayers will recognize that even though they experienced an increase in current disposable income, they have also experienced an equivalent increase in the present value of their future tax obligations. Because they are no better or worse off, there is no reason for them to increase current consumption and so the entire tax reduction will be saved. Consumption and saving therefore will not be affected by the increased deficit; both private and public consumption remain the same, and the increased public debt will be exactly offset by increased private saving. This being the case, increasing the deficit, with government spending held constant, will not reduce long-run economic productivity by exerting upward pressure on the interest rate and crowding out private investment.

Of course, as recognized by both Ricardo and Barro, complete indifference between taxation and government debt requires that everyone alive when government increases its debt be responsible for all of the future tax increases that servicing the debt requires. But many people realize that they will no longer be alive when the future taxes required by current deficit spending come due. Why won't these people treat the deficit as a real reduction in their tax burden (with a corresponding increase in the tax burden of future generations), and respond by saving less and spending more?

Barro confronts this question by arguing that most people will be reluctant to increase their consumption when debt is substituted for current taxation even if they know that they will not be alive to pay the higher future taxes required by the debt. According to Barro, this reluctance is based on the obvious fact that people are concerned with the well-being of their children beyond their own lifetimes. This concern is reflected in the investment parents make during their lifetimes in their children's human capital and the bequests they make to their children. Given this bequest motive, Barro argues that parents will recognize that substituting debt for taxes in the financing of government expenditures will reduce the well-being of their offspring by increasing their future taxes. In other words, parents will realize that the value of the taxes they will avoid because of increased reliance on

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deficit financing will represent a reduction in the value of their bequest to their offspring. The natural response to this is for parents to increase their bequests, and therefore their saving, by an amount equal to the tax burden that is passed from them to their children because of the increased deficit. The substitution of debt for taxation therefore leaves total saving in the economy unchanged with no crowding out of private investment and no reduction in the long-run productivity of the economy.

Barro recognizes that bequest adjustments will not offset completely the effects of deficit spending, but he argues that these adjustments are more complete than most people would expect. But Barro ultimately rests his case on what he sees as empirical support for the economic neutrality of deficit spending, with this support consisting of sophisticated econometric studies that find little connection between budget deficits and interest rates.

No amount of empirical testing will ever provide conclusive support either for or against the Barro thesis. Aggregate economic data are always of questionable accuracy, and empirical techniques are always less powerful and robust than would be desirable. Fortunately, additional evidence can be brought to bear on the relevance of Barro's proposition to fiscal policy without having to rely on economic data and sophisticated econometric techniques. This evidence comes from the clearly observed behavior of politicians and it suggests caution in accepting the Barro position. Furthermore, this behavior suggests that we be concerned about budget deficits for reasons not addressed either by Barro or by economists in general.

The Political Cost of Deficits

If the cost to the taxpayer is the same whether government spending is financed through taxes or deficits, then politicians should be indifferent as to the mix of these two means of financing. The evidence is clear that they are not. Why, for example, are politicians so reluctant to respond to the public's general disapproval of large deficits (a disapproval that is hard to square with the idea that debt and taxation have equivalent effects on the well-being of both current and future taxpayers) by simply financing all government expenditures with taxation? The proposition that deficits are economically neutral is simply inconsistent with the obvious reluctance of politicians to reduce deficit spending significantly.

The attractiveness of persistent budget deficits to politicians suggests strongly that current taxpayers do not believe that the future taxes they will have to pay because of additional government debt are as costly to them as the current taxes that the debt replaced. If this is the case, then over some range politicians will find it is less costly politically to finance spending through debt than through taxation. This suggests that the existing combination of debt and taxation prevails because it is the combination that allows existing spending levels to be financed at the least political cost. This being the case, it is clear that politicians will be reluctant to reduce deficit spending unless the political cost of deficit financing is increased. Also clear is that any increase in the public's tolerance of deficit spending will lower the political cost of government spending and, therefore, motivate both larger deficits and greater spending. Can anyone doubt seriously that government spending would increase if increased public tolerance of deficits lowered the political cost of further expanding deficit spending?

There is no obvious direct measure of the marginal political cost of deficits, so it is difficult to imagine a direct test of the proposition that a decrease in that cost will increase government spending. But a testable implication of such a response to a reduction in the marginal political cost of deficit spending is that an increase in the ratio of deficit financing to tax financing will be associated with an increase in government spending as a percentage of the Gross National Product (GNP). The budget experience of the federal government is consistent with this implication. Yearly Federal budget data from 1960 to 1988 show that when the ratio of deficit to non-deficit financing (almost all of which is tax revenue) increased by 1 percent, government spending as a percentage of GNP increased by .087 percent. There can be little doubt that the political cost of deficit financing has been reduced by the political embrace of a simplistic version of Keynesian policy prescriptions, an embrace which began with the 1960 election of John F. Kennedy and lasted, though with reduced enthusiasm, into the 1980s. There can be even less doubt that the decrease in the political cost of deficit financing, whether caused by Keynesian economics or not, is largely responsible for the increase in the relative size of the federal govern-

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ment since 1960 (from 18.2 percent of GNP in 1960 to 22.3 percent of GNP in 1988).

The Economic Cost of Deficits

The connection between deficit spending and the relative size of government suggests a cost associated with deficits that is easily overlooked by standard investigations of the economic effect of deficits. The expansion in government that is facilitated in a regime of chronic budget deficits reduces economic productivity and growth. To argue that government expansion reduces economic growth is not to deny that over some range government is a source of improved economic performance. A few government activities are necessary to establish an economic order that promotes productive specialization and exchange. But it also has to be recognized that organized interests persistently exert pressure in favor of expanding the scope of government activity beyond productive limits. These interests are often quite successful owing to the fact that the cost of expanding government is typically diffused over a dispersed and unorganized public, which lowers the political cost of this expansion below the social cost. The result is that governments at all levels have expanded well into the range where, at the margin, they are reducing our economic wealth.

Recent cross-national studies of the relationship between the relative size of government (as measured by government expenditures as a percentage of Gross Domestic Product) and economic growth provide a quantitative dimension to the negative marginal impact of government. One such study of 115 countries by economist Gerald Scully found that a 1 percent increase in government expenditures (as a percentage of GNP) reduced average annual economic growth by one-tenth of a percent.[2]

Using Scully's estimate of the connection between government size and economic growth and our earlier estimate of the connection between the ratio of deficit spending to taxation and government size, it is possible to make a ball-park estimate of the cost, in terms of forgone GNP, associated with increased deficit spending. If the ratio of deficits to tax revenue doubled from 10 to 20 percent (at the Federal level this ratio averaged about 3 percent during the 1960s, while from 1980 through 1988 it averaged 22.5 percent) then our earlier estimate predicts that government spending as a percentage of GNP will grow by 8.7 percent. This means that if government spending began at 20 percent of GNP it would have increased to 21.74 percent of GNP, which according to Scully's estimate would reduce economic growth by .174 percent. With a GNP in the U.S. of approximately $5 trillion, this reduction in growth is approximately $8.7 billion per year. This may appear to be a relatively modest amount as government budget numbers go, but with the figure increasing each year with economic growth, and accumulating over time, this deficit-related cost is of genuine significance.

While reasonable people can disagree over the magnitudes involved, it is hard to deny that the easier it is to engage in deficit spending, the lower the political cost of increasing government spending. Equally hard to deny is that the increased spending that will result, other things being equal, transfers resources out of the productive private sector and into the far less productive public sector. The clear conclusion is that there is a cost associated with deficit spending that is not the direct economic result of deficits themselves.

By attempting to determine the direct effects increased deficits have on such economic variables as interest rates and savings, economists have been ignoring what may be far more important consequences of deficit spending. Even if deficits have little direct economic effect, they can still be economically costly. It is not the deficits per se that are the problem, but rather the political environment that is created when politicians face little resistance to relying on deficit financing. The move to such an environment increases the control politicians have over productive resources, reduces the responsibility imposed on them in exercising that control, and, as a consequence, diminishes the productivity of our economy. □

1. Robert J. Barro, "Are Government Bonds Net Wealth?" *Journal of Political Economy*, Vol. 81 (1974), pp. 1095-1117.

2. Gerald W. Scully, "The Size of the State, Economic Growth and the Efficient Utilization of National Resources," *Public Choice*, 63, (1989), pp. 149-64. Scully's findings are supported by similar studies. For example, see Daniel Landau, "Government Expenditures and Economic Growth: A Cross-Country Study," *Southern Economic Journal* (January 1983), pp. 782-92; and Michael L. Marlow, "Private Sector Shrinkage and the Growth of Industrialized Economies," *Public Choice*, 49 (1986), pp. 143-54.

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The Idealist in the Young Communist League

by Arnold Berwick

"The Yanks are not coming . . . The Yanks are *not coming!*"

In 1941, as I approached Sather Gate on the campus of the University of California in Berkeley, I once again heard a voice cry out this slogan. But never before had I heard it expressed with so much vigor. That's when I met Steve, a member of the Young Communist League and an ardent pacifist.

I had already learned that a Communist was not what I had previously been led to believe him to be: a man with a black beard, dressed in a long black overcoat hanging to the ground, and holding a bomb that looked like a black bowling ball. I had already learned that Communists looked pretty much like the rest of us.

But on this particular day I was more interested in the young fellow handing out the leaflets than in his message. His eyes were alive, sparkling; the tone and vitality of his voice evidenced a profound enthusiasm that you seldom heard. I felt an affinity with him, as though he was someone I'd like as a friend.

"The Yanks are *not coming*," he cried out as he handed me a leaflet. I accepted it, but then stopped. He turned and looked at me. We made eye contact.

I wasn't sure how one went about talking to a Communist. I had heard about the Spanish Civil War and the part the Abraham Lincoln Battalion had played in it. So I asked Steve (I don't remember his real name) what it was about. His face brightened and he said, "Come with me."

We left Sather Gate and walked down Telegraph Avenue. (At that time, Sather Gate was at the southern edge of the campus. Since then, the University has expanded and taken over the whole adjoining block.) Steve led me to the Twentieth Century Book Store, the "Store with a Social Conscience," around the corner on Bancroft Way. As I waited by the counter, he opened the door to a rear room. A fellow came out and told me he had been in the Lincoln Battalion in Spain, and told me about the evils of fascism and the horrors of war.

I saw Steve a couple of times again at Sather Gate. We chatted for a few moments, he occasionally calling out, "Keep America out of the war . . . The Yanks are not coming."

The semester ended and most of us students left the campus for summer vacation. One day, I read in the *San Francisco Chronicle* that Hitler had invaded Russia. He and Stalin had had a nonaggression pact, and now Hitler had attacked. What effect would this have on the YCL? . . . on Steve?

As I approached Sather Gate at the beginning of the fall semester, someone else had taken Steve's place. The new guy was waving a handful of leaflets and calling out a slogan—familiar and yet different. At first, I thought I had misunderstood him, but when I reached out for a leaflet and read it, I knew I had heard correctly. And yet, at first I couldn't fully comprehend. The leaflet said, "The Yanks are not coming too late."

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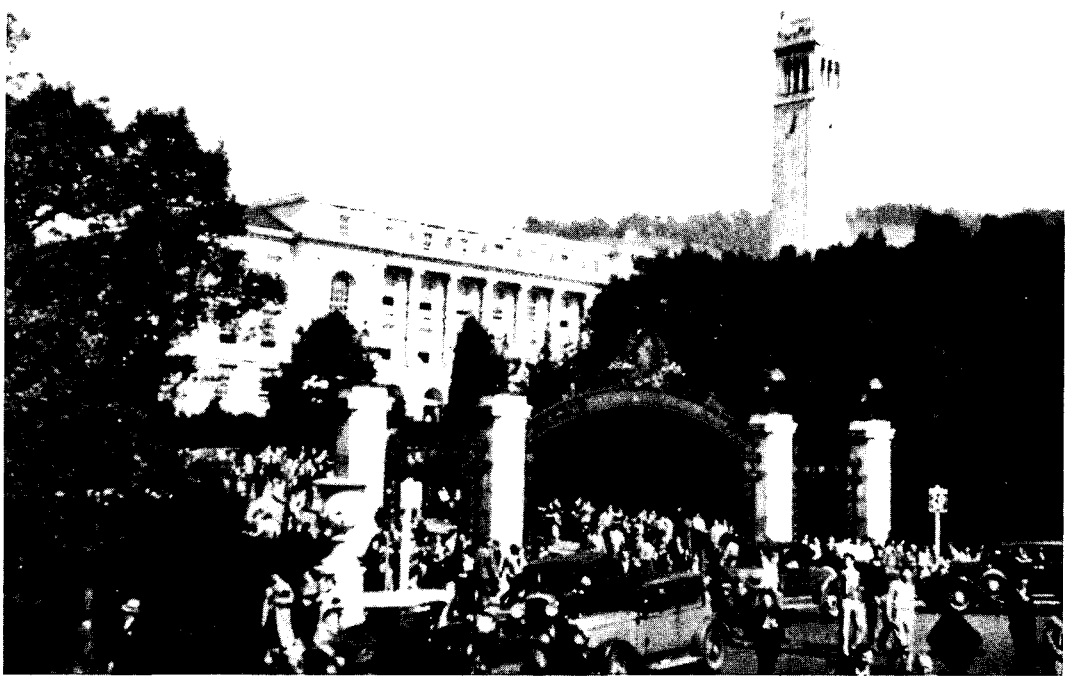

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Sather Gate, 1936.

"Too late." The Yanks are not coming . . . *too late*! Why this was a complete switch, a 180 degree turn-around. Now the YCL wanted us *in* the war. How could that be?

Steve was not at Sather Gate the next day, or the next. I never saw him again.

I liked Steve. Naive as I was at that time, I might even have wanted to join him, might even have become a member of the YCL. Who knows what might have happened? As it was, I later registered as a Republican and have pretty much followed that line all my life.

After 50 years, I still occasionally think of Steve, and wonder what happened to him. And what was the Young Communist League? How did it operate? Why the big switch? What was going on behind the scenes?

Now retired and with some free time of my own, I've been to the Bancroft Library at UC and found folders containing the old leaflets handed out at Sather Gate during the late '30s and early '40s. I've scanned issues of the *Daily Californian* newspaper, read many books, examined transcripts of the Un-American Activities Committees, and have even managed to locate a copy of a handbook entitled, "Young Communists in Action," published in 1935 by the Educational Department of the Young Communist League (District 13). The handbook was compiled by a Lewis Miller. (I was surprised to learn later who Lewis Miller really was.)

"Greetings, Comrade!"

The handbook opens on a high note: "GREETINGS, COMRADE! We welcome you into the YCL. You are joining the fight against capitalism, and the hunger, privation and oppression it breeds. Together, we form the revolutionary advance guard of youth—marching towards the overthrow of capitalism and the building of a new, a workers' society." It asks, "How does it happen that there are millions of people out of work? . . . How come the Depression takes place, and a fellow who wants to work can't get a job?"

To anyone living in those Depression days, it didn't take much argument to be convinced that, as an economic system, capitalism was a failure. Almost everyone was suffering in one way or another. "Brother, Can You Spare a Dime?"

After expounding on all the evils of capitalism,

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the handbook asks, "Can these conditions be wiped out, and a decent society established? Yes! . . . Through Communism." A Communist society will end wars, abolish unemployment, promote racial equality, provide food for all, preserve health, and so on. And what proof is there that the Communists will and can do this? "The proof exists—it is the living example of the Soviet Union."

How attractive this utopian world appeared to those who were living under the burdens of the Depression and the ominous threats of Hitler and Mussolini. There was hope for a better life because ". . . the Soviet Union stands out like a beacon light in a world of chaos and crisis."

The handbook explains that the YCL, open to all workers and students between the ages of 16 and 25, is the preparatory school for the Communist Party. In great detail, it describes the organizational structure of the League, starting with Squads of only 4 or 5 members—several of which comprise a Unit, leading to a District, a National, and ultimately the International. Each Unit has an Organizer, a Dues Secretary, an Education Director (in charge of agitation and propaganda), and a Literature Agent. The handbook instructs how the League can achieve its goals by infiltrating unions, promoting strikes, agitating for reforms, conducting demonstrations and street meetings, recruiting new members, publishing and distributing leaflets, and so on.

The 39-page handbook begins and ends on the upbeat: "We have a hard fight ahead of us—it is no simple job to overthrow capitalism and build a new society, a new life. We are glad to have you with us. From all over the world, from the mines of South Africa, from the fatherland of the workers—the Soviet Union—from the factories of Tokyo, from the Red Army of China, millions of young Communists extend their hands to you and say: 'GREETINGS, COMRADE!'"

Deceptive Rhetoric

One way the Party was able to lure young people in and exercise control over them was through its ability to manipulate the meaning of words. Even the term "communism" is deceptive. The terms "communism" and "socialism" are used interchangeably, but the true Marxists make a distinction between the two. Socialism, they say, is a transitional stage between capitalism and Marxist Communism. Under socialism, the "proletariat" has complete ownership of the means of production, money continues in use, and goods are distributed according to one's "contribution" to society. But once a communist man is created (selfless, hardworking, and devoid of greed, aggression, envy, ill-health, etc.), the socialist state will wither away, and the people will live in a classless, perfect Communist society.

But Lenin altered Marxism. He called for a party of professional revolutionaries, highly disciplined, whose aim should be to establish the dictatorship of the proletariat. (In practice, the Communist Party in the Soviet Union is the "vanguard of the proletariat." In 1988, only 6 percent of Soviet citizens were members of the Party.) Lenin urged open and persistent warfare against the socialists, and a long-term program of worldwide revolution to spread his concept of "communism."

When Stalin took over in 1924, he decided to establish his own form of "communism" in the Soviet Union, without waiting for revolutions to occur in the main capitalist countries. This required intensification of the class struggle, liquidation of his "enemies," and a policy of internal repression and terror. His policies shifted, depending upon what he felt at any particular time to be in the best interests of the Soviet Union—and of his own personal power. He demanded, and got, complete control over the Party.

So, the young idealists in the '30s and '40s were lured in by visions of the perfect world of "communism," while they were innocently and unknowingly caught in the web of Stalinism, a totalitarian dictatorship.

The name of the youth organization has been changed off and on to suit the circumstances. The All-Russian YCL was formed in 1918, and the Young Communist International in 1919. Because of the attempts to crush all left-wing movements in the United States during the period, the revolutionary youth in this country operated under the name of the Young Workers League of America. But in 1924 (with the advent of Stalin), it changed its name to the Young Communist League. During World War II, in a gesture to make the entire Communist organization less offensive to the U.S., the name became American Youth for Democracy. Later, it was changed to Labor Youth League, then Young Workers' Liberation League, and so on.

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Also Known As . . .

Some of the professional leaders used aliases. In a 1953 hearing before the House Un-American Activities Committee, Mr. Rosser, an ex-Communist, was questioned about the "Young Communists in Action" handbook (quoted above). He testified that it was written by Lewis Miller, but then added that "Lewis Miller . . . was his party and Young Communist League name. His real name is Louis Goldblatt. He is now the secretary-treasurer of the International Longshoremen's and Warehousemen's Union. . . . Harry Bridges is the head of it." (It is interesting to note that in a 1943 hearing, it was learned that the Maritime Federation of the Pacific, which Bridges headed, coined the slogan, "The Yanks are not coming.")

Another creative interpretation of words by the Party was the meaning they ascribed to "democracy" and "democratic." Page 21 of the handbook explains the concept of "democratic centralism," which allows the members "complete freedom" in the choice of officers and the discussion "of all issues." Surely, this is true democracy. But, the decisions are to be made on the top of the organizational pyramid and transmitted down to the membership. And once a decision has been made by a higher body, "the discussion must be ended and the decision carried out, even if the membership of the local organization" does not agree. To question was heresy; to disagree, a mortal sin—sufficient to cause expulsion from the League. "Democratic centralism" is a euphemism for authoritarian control.

Many young people joined the YCL in the late '30s and early '40s, the League's "Golden Age." Why?

According to Morris L. Ernst and David Loth in their *Report on the American Communist*, some who were lonely, or who lacked love from their own family, found that the YCL gave them a sense of belonging, an illusion of popularity that marked the high point in their lives. Others, following a young person's natural inclination to attempt some sort of adolescent defiance, joined as a form of rebellion against authority. Apparently, most of these young people were sincere idealists, searching for better economic conditions, free speech, racial equality, health care, avoidance of war, and all the other goals any decent person would strive for and which only the Communists seemed prepared to do something about.

Of the many young people who joined the YCL, however, the majority became disillusioned and dropped out after two or three years. As one ex-Communist said, he fought hard from within the Party for better working conditions, race equality, and free speech, but left "because the commies don't really want these reforms. They want to use the lack of them to win their own game." And what was their game? The problem was that the leaders continually switched goals, made abrupt about-faces. It was often difficult to determine what the game was at any particular time.

Between 1928 and 1938, many members quit when Stalin had Trotsky exiled, old Bolsheviks slaughtered, and comrades of Lenin purged. At that time, Stalin's policy was not so much against capitalism as it was against the socialists.

From 1935 to 1939, the fear of a German invasion of Soviet Russia gave rise to a "collective security" policy. Stalin decided to appear "democratic" and "antifascist," a real friend to democracy and the guardian of every tradition of freedom and civil liberty. He ordered that the YCL and the Communist Party penetrate the unions and all types of organizations, and build a "united front" against fascism. The Civil War was being fought in Spain. Franco was a fascist, and this was the beginning of the war against fascism. With the European democracies insistently neutral and the United States aloof, it seemed to many young people that only the Communists and the Soviet Union were seriously engaged in combating fascism. Some 2,800 Americans, 60 percent of them said to be members of the YCL, fought in Spain as the Abraham Lincoln Battalion of the International Brigade. Of these, it is estimated that over half lost their lives.

Hitler and Stalin

And then came August 3, 1939, and another turnabout in policy. Stalin signed a nonaggression pact with Hitler, the most fearsome fascist of all. This was followed by two secret protocols which provided that Russia and Germany would partition Poland between them, and that Russia would absorb Lithuania, Latvia, Estonia, and parts of Finland and Romania. Although Stalin was certain that war between England and France on one side, and Germany on the other, would continue,

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he feared an extension of the war to new participants, particularly the United States. American participation could cause the defeat of Hitler and thus endanger Stalin's ability to acquire part of Poland and the new areas agreed to in the secret protocols, an eventuality that might involve Russia in a war it desperately wanted to avoid. On the other hand, if the war could be confined to England, France, and Germany, capitalism might destroy itself, leaving the United States as the only obstacle to domination by the Soviet Union. So, the policy was changed from the fight against fascism to the fight against imperialism. The slogans became "Keep America out of the war" and "The Yanks are not coming."

This was the situation when Steve handed out leaflets at Sather Gate. The YCL increased its efforts, held protest meetings, and fomented strikes in war industries. Roosevelt was declared a warmonger.

On June 22, 1941, Hitler invaded Soviet Russia. Strikes that had been initiated by Communist-dominated unions were quickly settled, some within a week after the attack. Roosevelt became an overnight hero. The American *Peace* Mobilization was quickly changed to American *People's* Mobilization; they switched from anti-war to all-out aid to Britain—without even changing their initials. "The Yanks are not coming" became "The Yanks are not coming too late."

Evidently, this was too much for Steve. He no longer handed out leaflets at Sather Gate.

Members of the YCL were kept in the dark as to Stalin's motives. So, each time there was a sudden and radical change in policy, when many realized they had been lied to and deceived, there were massive resignations.

Also, those who deviated even slightly from the current party line were expelled. Those who didn't conform to the concept of "democratic centralism" were driven from the ranks.

In Russia, by Khrushchev's own testimony, resignation or expulsion often resulted in prison, torture, or death. In our country, the penalty was non-violent but often distressful. According to Howard Fast in *The Naked God*, "When a Communist walks out of the Communist Party, he must travel through a special purgatory that no one other than he who has come through before can possibly understand." Ostracized and cut off from the Party, some missed the companionship, the sense of belonging, the excitement, and the work the Party gave them. They became outcasts, shunned both by their former comrades and by the non-Communist world. The Party itself didn't hesitate to resort to blackmail and persecution, writing anonymous letters to employers, slandering them, or in other ways making life miserable.

An ex-Communist was also often harassed by those outside the Party. He had difficulty getting a job, and often lost it if his employer found out about his youthful errors. Even a brief flirtation with a leftist group often tagged a person as a potentially dangerous individual, subject to scrutiny by Federal and state legislative committees. Many suffered during the witch hunts of the 1950s. Some went to jail.

According to Ernst and Loth in *Report on the American Communist*, most of the young Communists were "earnest, hardworking, studious youths, generally passionate for justice." They joined in their teens, lured by the utopian idealism of Marxism, and betrayed by the evils of Stalinism. Most of them left after a short time when they saw they had become dupes of Stalin and the Soviet Union.

I don't know what happened to Steve. But, wherever he is, I wish him well.

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Postscript: After I wrote this article, I went to Berkeley for one last search. As a result of a series of fortunate events, I learned the name and present address of the person who was the president of the YCL in 1941.

When I went to see him, I was stunned by two revelations: First, he turned out to be a person I've known and seen off and on for almost 35 years! (He used a different name while a student in the YCL.) He read the article and said it accurately reflects the facts as he knows them. Second, he said that, although he is not sure, he believes it quite possible that he was "Steve." He handed out leaflets at Sather Gate in May 1941; under the circumstances he would have led me to the bookstore; and he no longer appeared at Sather Gate after June 1941.

Although I prefer not to reveal his name, I can report that he appears happy and well. He had a business of his own before partial retirement, and lives in an affluent neighborhood. He's even a registered Republican. □

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Modernization and Central Planning

by E. C. Pasour, Jr.

The failure of collectivism as a productive economic system in Eastern Europe and the Soviet Union was fully predictable from the economic calculation debate that occurred more than 50 years ago.[1] Ludwig von Mises and F. A. Hayek demonstrated that the structure of production in a centrally directed system cannot reflect human wants efficiently because the knowledge necessary for economic calculation cannot be coordinated and transmitted in the absence of market prices. The significance of the economic calculation debate was lost in the aftermath of the Keynesian revolution of the 1930s, but its importance for economic growth and development is slowly but increasingly being recognized.

The effect of modernization of the economy on the ability to plan through central direction is one issue in the calculation debate that has received relatively little attention. The argument sometimes is made that a modern urban industrial economy must have an active and extensive government. Yet, one cannot conclude that more government planning is required as the economy becomes more complex. Indeed, a strong case can be made that market signals have become ever more important in the information explosion that is inextricably linked with the increased complexity of the economy.

The following analysis first discusses possible ways of coordinating economic activity. The implications then are shown for central direction and economic progress.

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Functions of an Economic System

The general task of coordinating economic activity in any society may be divided into a number of interconnected and overlapping functions. These fundamental tasks fall into a more or less logical sequence. The first is to decide what is to be done. That is, it must be determined *what* goods and services are to be produced and in what proportions. The second problem is to organize production or, equivalently, to get done the things that are to be done—this involves decisions concerning *how* to produce. The third function is that of determining people's incomes. That is, some procedure must be used to apportion the goods and services among the members of society. The fourth function is that of rationing or adjusting consumption to production. Seasonally produced goods, including many agricultural products, must be rationed over time; the consumption of all goods and services must be adjusted to the existing stock, including current rate of output. The fifth function is to provide for economic progress through increases in technology, including changes in types of business organization.

The functions just described are highly interrelated. For example, decisions about *what* to produce and *how* to produce are closely related to incomes received by resource owners. Increased incomes of corn producers will lead to more corn production. An increase (or decrease) in the prof-

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itability of corn produced using chemical methods of weed control will influence the method of production (that is, how to produce).

The first four functions are relatively short run in nature, dealing with an economic system operating under "given conditions" including resources, wants, and technology. These functions constitute the problems of the so-called "stationary economy" in which there is no economic growth and the wealth and income of individuals remain unchanged.

Possible Types of Economic Organization

The problems just described must be coped with in any society, and several methods of organizing economic activity have been tried or proposed. These types are described here not because they are realistic alternatives in a modern society, but rather to highlight the problems that arise in the absence of market signals.

Status and Tradition or Caste System. This is the nearest approach to a mechanical division and coordination of economic activity. It is possible to imagine a social order in which specialization of activities is achieved on a purely customary basis. In such a system, rigid social custom, as in a caste system, determines the allocation of resources, techniques of production, and assignment of individuals to their tasks. This method of coordinating economic activity holds little attraction for most people in the modern world because a society organized on the basis of status and tradition necessarily would be unprogressive.

Command or Militaristic System. In this system, the whole structure of society including determination of policies, division of labor, and distribution of income would be dictated by an absolute monarch. Therefore, the preferences of individuals either in consumption or in production need not be considered. The organization of production might be worked out to a high degree of intricacy, as in the legendary Soviet five-year plans, but coordination of economic activity is the Achilles' heel of this and other systems of central planning. The model of central planning based on the ruler's preferences is quite similar to that of collectivist systems in the Soviet Union, Eastern Europe, China, and other countries during the post-World War II era.

Democratic Socialism. A society organized on this principle would resemble the previously described command system in its main structural features. Again, the government owns the means of production. The purported theoretical difference is that economic decisions in democratic socialism are made by the will of the majority as expressed through the political process.

However, this supposed difference is more apparent than real and has little practical significance. A centrally directed system is plagued by information problems even if decision makers in the political process are completely altruistic and fully desire to promote the public weal. Elected and appointed public officials have no way to divine the "public interest." A planner, regardless of technical expertise, cannot obtain the information on consumer preferences, resources, and production opportunities that would be necessary to determine the "correct" pattern of production, even if he wishes to do so. In reality, of course, individuals in the political process are likely to be influenced by more selfish short-run goals such as getting reelected, increasing agency size, and so on.

In short, there is no way to coordinate economic activity efficiently in the absence of private property and the associated price signals. Attempts to simulate market conditions through central direction are futile because there can be no competitive behavior without dispersed power and responsibility. If all property is collectivized and all pricing centralized, there is no scope for a mechanism that can reproduce in any significant respect the functioning of the entrepreneurial market process. Therefore, attempts to achieve the beneficial results of free enterprise in a collectivist system are doomed to fail.

The Private Property System. Economic functions are achieved through exchange in impersonal competitive markets in the decentralized free enterprise system. The most interesting feature of the market order is that it is, in a sense, automatic and unconscious. No one ever planned the system, and no one assigns the participants their roles or directs their activities. Instead, market prices are uniquely valuable in coordinating and transmitting information to participants throughout the pro-

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duction and marketing process. In so doing, market prices provide indispensable signals to market participants in decisions concerning what to produce, how to produce, and the rationing of goods and services; market prices also largely determine individual incomes.[2]

Implications for Central Planning and Economic Progress

What are the implications of the preceding discussion? There are only two possible ways of coordinating economic activity in a modern society—the market and central planning. However, there is only one means that is consistent with economic progress. The economic calculation debate demonstrated that *successful* planning is impossible in the absence of private property and the associated market prices. Without these signals, there is no possibility of calculating costs or revenues and no way of determining whether the most highly valued products have been produced. That is, the decentralized market system is the *only* way that ever-changing valuational signals can be coordinated systematically and transmitted by millions of individual consumers and producers.

Markets are unique not only in facilitating the use of information already possessed by market participants, but also in playing a crucial role in the *discovery* of new information. That is, market prices stimulate entrepreneurial discoveries, including the productive use of information that was not previously recognized. The recognition of the market as a discovery process highlights another key shortcoming of central direction—the lack of economic progress, including innovation and change. Consider the problem of how decisions are to be made about allocation of venture capital, new products to produce, new types of capital investment, and so on.

Managers of government enterprises have an incentive to play it safe. If a venture is successful, the government official may receive some extra compensation, but is affected relatively little compared to a private entrepreneur. If the venture fails, however, the government bureaucrat may lose his job. Thus, the tendency is to avoid risky ventures. In contrast, the decision maker in the profit and loss or market system is a residual claimant. He bears the loss if actions taken prove unsuccessful; he reaps the gains from decisions that turn out to be profitable. Thus, the decision maker in the market has a much greater incentive to undertake risky ventures. The conclusion is that lack of incentive to provide economic change and progress is a chief defect of all alternatives to free markets.

In short, market signals are crucial elements in the incentive mechanism of the capitalist system. In conjunction with residual claimancy, prices provide a uniquely successful way to reward effective actions and to penalize ineffective actions.

Implications of the Information Revolution

How does modernization of the economy affect the usefulness of markets in coordinating economic activity? The information revolution involving computers, fax machines, and so on, not only has spurred economic innovation, but also has dramatically increased and accelerated the amounts of data transmitted. Moreover, capital transactions increasingly are being freed from the confines of national boundaries. For example, entrepreneurs using computer modems can send production orders throughout the world. The trend clearly is toward more decentralization, not increased centralization.

The information revolution has had a pronounced effect on the structure of production. In finance, communications, transportation, and other areas, capital is becoming "miniaturized." Richard McKenzie writes: "A knitting loom that used to be the size of a car now takes up the floor space of a birdbath but is several times more productive than its forerunner. Firm records that once were crowded into file drawers can now be etched on chips or the back of credit cards. Plants that once rose several floors, spanned hundreds of acres, and employed thousands fit today in one story on a one-acre concrete slab and employ fewer than a hundred."[3]

Economic problems, as emphasized by Hayek, always arise as a consequence of change. Technological innovations in production and marketing have greatly increased the economic coordination problem. Moreover, much of the information important in economic decision making is specialized to time and place and cannot be conveyed in statistical form to any central authority. Under these conditions, decisions by the "man on the spot" become more and more important and

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central planning less and less feasible.

In the wake of the economic calculation debate, socialist planners visualized "market socialism" in which planners using high-speed computers could simulate the information provided by private property and the associated market signals. Data processing developments have indeed played a key role in the information revolution, but the results have not been those anticipated by socialist theorists.

The increase in technology related to the generation, processing, and transmission of information hasn't lessened the need for market signals. Instead, the result has been just the opposite. The dramatic increase in information processing puts central planning at an even greater disadvantage when contrasted with market planning. As the amount of information increases, it becomes more and more difficult to discover, coordinate, and transmit information throughout the world economy through central direction. This means that collectivism becomes ever more outdated in an increasingly interdependent world. George Gilder describes the stark implications of collectivism for modernism: "If the politicians want to have central planning and command, they cannot have dynamism and life. A managed economy is almost by definition a barren one, which can progress only by borrowing or stealing from abroad."[4]

Conclusions

There are two basic ways to organize economic activity—central direction and the entrepreneurial market process. However, in a modern economy there is no feasible alternative to widespread use of market signals. As the complexity of the economy in manufacturing, communications, transportation, banking and finance has increased, the amounts of information generated and the speed of transactions have also increased. It becomes more and more difficult under these conditions to convey, coordinate, and transmit information between market participants through administrative procedures. This means that with modernization of the economy, planning by central direction has become less and less efficient relative to planning through markets.

The economic crises in the Soviet Union, Eastern Europe, and other collectivist systems throughout the world are not accidents that just happened. The breakdown of collectivism is directly associated with the economic information revolution occurring throughout the world.

Mises and Hayek failed to convince socialist theorists of the importance of free enterprise and private property during the economic calculation debate that raged from 1920 throughout the 1930s. However, now they have been fully vindicated in their contention that "market socialism" and other central planning techniques that purport to yield the advantages of decentralized competitive markets are doomed to fail. And it is ironic that information processing by high-speed computers, once thought to be the salvation of socialist planning, has instead turned out to be merely another nemesis. □

1. Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth," part III in *Collectivist Economic Planning*, edited by F. A. Hayek (Clifton, N.J.: Augustus M. Kelley, 1974 reprint of 1938 edition); F. A. Hayek, *Individualism and Economic Order* (Chicago: The University of Chicago Press, 1948).

2. This function often is referred to incorrectly as income distribution in a free enterprise exchange economy. However, "There is in the operation of a market economy nothing which could properly be called distribution. Goods are not first produced and then distributed, as would be the case in a socialist state." (Ludwig von Mises, *Human Action* [Chicago: Henry Regnery Company, 1966], p. 254)

3. Richard B. McKenzie, "The Twilight of Government Growth in a Competitive World Economy," Cato Policy Analysis No. 111 (Washington, D.C.: The Cato Institute, August 19, 1988), p. 3.

4. George Gilder, *Wealth and Poverty* (New York: Basic Books, 1981), p. 237.

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A Note on Converting the Ruble

by Gary Wolfram

The Soviet Union is beset with a myriad of problems as the final collapse of socialism approaches. One of these is how to make the ruble freely convertible with Western currencies.

What seems to be missing in the discussion about convertibility is that this problem cannot be solved in isolation. It is impossible to create a convertible currency without establishing property rights and a system of free exchange such as exists under a market economy. Recent proposals to establish a gold standard or to back the ruble with a basket of commodities will fail in the long run if the economy can't produce goods that are marketable to the rest of the world.

What Is Money?

In discussing the convertibility of the ruble, one must first determine what money is, and why anyone would wish to possess it. Ludwig von Mises established in *The Theory of Money and Credit* (1912) that money is simply a medium of exchange. It is a good that is desired not primarily for direct use, but because it can later be traded for a good that the consumer wishes to use. Money allows indirect exchange, not only in the present time and place, but across time periods and locations. Mises pointed out that the advantages of indirect exchange of goods, and the specialization of labor that this allows, are sufficiently strong that some commodity will be established in the market as the good that trades for all other goods. This will occur naturally, without the need for government action.[1]

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Thus, someone would want to possess rubles only because he or she hopes to exchange them at a future date for goods or services. When we say we want to make the ruble convertible, what we really mean is that we hope individuals will accept it as a medium of exchange, without being required by their government to do so. They will either trade goods and services for rubles, or they will exchange other mediums of exchange for rubles. In other words, the ruble will be convertible when the market accepts it as money.

A Gold-Backed Ruble?

It has been suggested that backing the ruble with gold will make it a convertible currency.[2] This, of course, will work after a fashion. But let us think for a moment about what we mean by backing the ruble with gold. It means that the Soviet government would be willing to exchange a certain amount of gold for a paper ruble. This means that rubles will have become certificates that are claims to gold.

Why would anyone want a gold-backed ruble? Only because one wished to exchange it for goods or services, or for gold, and later to use the gold to exchange for goods or services. Suppose that the Soviet economy remains in disarray, unable to produce goods and services that are competitive with the rest of the world. This means that Soviet citizens will find their rubles are convertible all right, in the sense that producers in other countries will accept the Soviet rubles in exchange for goods and services. But the rubles that are accepted won't be traded for Soviet goods and services. Instead, they will be exchanged for gold. Eventu-

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ally, the Soviet Union will run out of gold as its citizens exchange the gold-backed ruble for foreign goods and foreigners exchange the ruble for Soviet gold. When this happens, the ruble will no longer be convertible, and the Soviets will have traded their stockpile of gold for a basket of Western goods and services.

The Only Solution: Free Markets

The only thing that will lead to long-run convertibility of the ruble is the production of goods and services in the Soviet Union that can be exchanged for goods and services produced in other countries. And this can only occur through the institution of a free market system of production with full private property rights. It is not the purpose of this note to argue the efficacy of the free market system. This has been argued elegantly by the Austrian school of economists and within the pages of this journal over the years. Mises demonstrated over half a century ago that there is no method by which a socialist economy can determine the proper allocation of resources.[3] Without free market pricing, value cannot be assigned to the outputs of the system, and thus one has no way of knowing how much to produce of any good or service, what resources should be used in the production of goods or services, how much to produce of intermediate goods, and so on.

Clearly this century's experiment in state-run economies provides ample evidence of the failure of the socialist system, in any form, to produce goods and services that meet the standards of a capitalist economy. Any recent issue of *The Economist* will document the inability of the Soviet economy to function. The Soviet Union is having difficulty servicing its debts because the markets for its oil and arms, the only items that have a ready market in the rest of the world, are deteriorating.[4]

Institution of a market economy is the only method by which the Soviet Union can become a sufficiently efficient producer so that there will be a demand for its goods and services from the rest of the world. This is really what the Soviets are after, since they wish access to Western goods and services, with currency convertibility being only the means by which that will be accomplished.

This is not to say that the ruble shouldn't be gold-backed. As Mises and others have pointed out, the primary advantage of a gold-backed currency is that it puts constraints on the issuing government that disallow the debasing of the currency.[5] This makes the currency more useful as a medium of exchange over time and would aid in establishing the long-run convertibility of the ruble. But the institution of a free market economy is the primary prerequisite to making the Soviet currency convertible.

Once a free market economic system is established, a gold-backed ruble would certainly trade in world markets for goods and services as well as exchange for foreign currency. But why not move further into the realm of free markets? In conjunction with a gold-backed ruble and a free market economy, allow the Soviet citizens to transact in any currency they choose. Those currencies that were most useful as a medium of exchange would dominate the market.[6] Most probably, the West German mark, the U.S. dollar, and the Swiss franc would be the primary competitors of a gold-backed ruble within the Soviet Union. The effect would be to make the ruble convertible in the Soviet Union as well as abroad. □

1. For a nice discussion of Carl Menger's theory of the origin of money, see Murray Rothbard, *What Has Government Done To Our Money?* (San Rafael, Ca.: Libertarian Publishers, 1985), or directly, Carl Menger *Principles of Economics* (Glencoe, Ill.: Free Press, 1950).

2. See, for example, Murray Rothbard, "A Gold Standard for Russia," *The Free Market*, January 1990, p. 3.

3. Ludwig von Mises, *Socialism: An Economic and Sociological Analysis*, German editions in 1922 and 1932, (latest edition: Indianapolis: Liberty Press/Liberty Classics, 1981).

4. "Russia's latest queue: for creditors," *The Economist*, May 19-25, 1990, p. 76.

5. See, for example, Mises, *The Theory of Money and Credit,* (Irvington, N.Y.: FEE, 1971), p. 438.

6. A well-argued case for a free market in money can be found in Hans Sennholz, *Money and Freedom* (Spring Mills, Penn.: Libertarian Press, 1985).

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"To Further Free Trade Principles": Origins of *The Economist*

by Nicholas Elliott

"Can there be a sufficient number of readers with intelligence to appreciate it found to make such a paper pay?" asked the free-trader Richard Cobden when *The Economist* was launched in 1843. The journal had been founded by a manufacturer called James Wilson "in order to further free trade principles."

Cobden's question was a valid one because newspapers remained a luxury good in Britain until the 1850s, with prices inflated by an excise duty on paper, a tax on advertisements, and a stamp duty. The working classes sympathized with free trade principles, but could not be relied upon to spend money on a weekly newspaper.

As it turned out there was a readership among the growing professional and trading classes. *The Economist* provided them with arguments and statistics, and gave coherent expression to their sentiments of laissez faire. At least one writer has credited the journal with a significant role in the development of 19th-century classical liberal thought: ". . . if we wish to find the origin of the mid-nineteenth century theory of laissez faire, we can find it nowhere better than in *The Economist* and the people who were connected with *The Economist* during this period."[1]

Defender of Laissez Faire

By 1843 the campaign to abolish the protectionist corn laws had become a mass popular movement. It was the year that John Bright, the great liberal orator, was elected to Parliament, and a year in which the Anti-Corn-Law League distributed nine million leaflets throughout Britain.

James Wilson had personal connections with the League, and his aim was to support their cause. The League, in return, agreed to underwrite a large number of subscriptions to *The Economist*. Yet *The Economist* was independent of the League, and continued to survive and prosper after the corn laws were brought down in 1846. Wilson was astute enough to maintain some distance between his journal and the immediate free-trade campaign.

The other important factor in its durability was an honest attempt by *Economist* writers to examine issues in the light of objective evidence. *The Economist* has always offered opinion, but it has never been opinionated; argument is made from facts rather than from dogmatics. So, the reader can expect a free-trade argument, but studiously supported by observation and statistics. Frederic Bastiat, the French free-trader, paid tribute to its rigor: "There never was a periodical work in which all the questions of political economy were treated with so much depth and impartiality. It is, besides, a precious collection of facts, doctrine and experience mutually supporting each other in its columns."[2]

This approach won respect for the journal beyond the narrow circle of the free-trade movement, and helped to ensure that its readership wouldn't ebb and flow along with the fortunes of the free-trade campaign.

The character of *The Economist* was created by Wilson, who served as editor from 1843 to 1859.

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Wilson was elected to Parliament as a Liberal M.P. and held public office in the government of Lord John Russell (1846-1852). He was also a man with strikingly libertarian views, who opposed intervention in the railways and regulation of factory hours because he saw these actions as going beyond the proper sphere of government. When a public health act was being considered, he declared that "the extension of the sphere of government interference from which so much has been dreaded for freedom, seems rather likely, by the vastness of the burden, to break down the Government."[3]

Thomas Hodgskin was Wilson's co-writer at *The Economist*. After serving in the navy during the Napoleonic Wars, Hodgskin had been unwillingly discharged, and had written an essay critical of the navy that had drawn the attention of Francis Place and the liberal Benthamites. It was through them that he came into contact with Wilson and *The Economist*.

Hodgskin was author of *The Natural and Artificial Right of Property Contrasted,* in which he argued that there is a natural right to property, against which government frequently aggresses. Hodgskin has sometimes been described as a Ricardian socialist, but he was actually more of a libertarian anarchist, viewing the downfall of the corn laws as a first step toward the demise of government. Evidently, he was regarded as a touch too radical for the liberals of the Anti-Corn-Law League, and sometimes by Wilson, too. Hodgskin left *The Economist* in 1857, possibly because of political disagreements with Wilson.

Before becoming a popular writer, Herbert Spencer (the sociologist and author of *The Man Versus The State*) was employed as a sub-editor at *The Economist*. Although he shared the convictions of Wilson and Hodgskin, Spencer had no editorial involvement, working instead on the statistical and factual content of the journal. Spencer published *Social Statics* in 1851, and left *The Economist* in 1853, as soon as he was able to support himself as an author.

Nassau Senior, the free-market economist, wrote on foreign affairs for Wilson and for the second editor, Walter Bagehot. Senior was apparently an accomplished journalist who excelled himself during the Crimean War—through his contacts in France, the journal was frequently able to beat other papers into print with the major stories on the conflict.

It is difficult to imagine a team of journalists with a stronger and deeper commitment to free markets than this group of writers for the early *Economist*. This was reflected in its pages, with free-market principles applied consistently to the problems of the day. Adam Smith, Frederic Bastiat, John Locke, and Edmund Burke were quoted to readers. In 1849 The *Economist* offered a uniquely eloquent justification of unfettered market forces: "The self-interest of each merchant and trader leads to establish throughout all the ramified and vast transactions of commerce, a system of order such as no Government, however enlightened or strong, could ever conceive or ever enforce. Examined in detail, or looked at in total under the most general aspect, all the great branches of human industry are found replete with order, which growing from the selfish exertions of individuals, provides the whole. Experience has proved that this order is inevitably deranged when it is forcibly interfered with by the state. . . ."

The Wilsonian *Economist* opposed, almost without exception, every government intervention in society. It opposed regulation of factory hours, government control of the water supply, government enforcement of urban sanitation, state education, and military involvement in other countries. With its clear statement of laissez faire, backed by facts and figures, *The Economist* was educative and inspirational reading for the sympathetic middle classes.

Continuing the Tradition

In 1860 Wilson was succeeded as editor by Walter Bagehot, who already had been writing for the journal. Bagehot was vice chairman of the Stuckey Somerset Banking Co., which was to become the largest private bank of issue in England. Bagehot was the most famous editor of *The Economist*, known as a critic and a man of letters as well as an economist. He was an opinion-former, and an adviser to governments. "I had the advantage of frequent and free communication with him on all matters of finance and currency," said Prime Minister William Gladstone.

Bagehot was very firmly in the same libertarian tradition as Wilson. He wrote in his book *The English Constitution* that "We look on state action, not as our own action but as alien action; as an

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imposed tyranny from without, not as the consummated result of our own organized wishes."

The laissez-faire tradition was maintained by Bagehot, and continued after his death in 1877. *The Economist* of 1895 complained that "Little by little, and year by year, the fabric of state expenditure and state responsibility is built up like a coral island, cell on cell. Every year half-a-dozen Acts of Parliament are passed which give the state new powers and new functions."

With Bagehot as editor, and for its first 70 years, *The Economist* espoused a position of foreign policy nonintervention. It opposed the popular British military expedition to the Crimea. It cautioned against British involvement in the dispute over Schleswig-Holstein, the Austro-Prussian War, the Franco-Prussian War, and Italian unification. British neutrality was urged in the American Civil War, although the journal indicated more sympathy with the South because of the protectionism of the North.

The next editor of note was Francis Hirst, who held the position from 1907 to 1916. Again, Hirst was a strong advocate of free markets, and he was part of the later generation of liberals—which included such figures as Lord Morley and Hilaire Belloc—that continued the libertarian tradition of Cobden and Bright. Hirst started the expansion and modernization of the journal that helped turn it into the international enterprise it is today.

In the 20th Century

As World War I dealt a serious blow to the liberal movement, so it did to *The Economist*. The war entailed a massive expansion of state activity, and involved curtailment of liberties enjoyed for many years beforehand—food was rationed, trade tariffs introduced, pubs were forced to close at certain times, minimum wages were imposed, rents were controlled, industries were supported or closed by government, and civil liberties were suspended by the Defence of the Realm Act. The war was a drastic shock to the optimism of the liberals, who had looked forward to a world of enduring peace and freedom.

The Economist opposed involvement in the war, right up to the time of Britain's entry. Hirst told of how he wept when war broke out, feeling that "the lights had gone out in Europe."

The 1918 *Economist* had to adapt to new conditions in Europe. Laissez faire was being overtaken by ideologies that placed less value on individual freedom, and the journal had to adapt to new preferences among its readership. In foreign affairs it continued to warn against entanglements, but it now encouraged the development of international peace-making bodies such as the League of Nations, and this became a regular editorial theme.

At this time, the meaning of liberalism was changing, a reflection of changes in the ideas of liberals. Many liberals now endorsed the welfare state and redistribution, and discarded the ideas of laissez faire. The transformation has continued until, in large parts of the world today, "liberalism" signifies a belief in big government, the complete reverse of its original meaning.

The Economist, as a liberal newspaper, followed the trend to an extent. Walter Layton, editor from 1922 to 1938, was a welfare-state liberal who went on to become chairman of the left-leaning *News Chronicle*.

Yet the journal has always retained an evident strand of classical liberalism. Brian Beadham, an *Economist* writer of long standing, explains how the journal continued to express an unfashionable support for the market system in the postwar years of collectivist consensus. Today, he says, *The Economist* remains "foursquare in the libertarian tradition." These free-market views have often come from Norman Macrae, who has worked for the journal since 1949. A recent newspaper profile describes how Macrae "takes constant delight in pointing out where government policies are having perverse effects—where punishment leads to crime, income support to poverty, education to ignorance, planning to nonsense."[4]

After almost 150 years, the consistency is impressive. True to tradition, the modern-day reader is presented with arguments for a market economy, free trade, and limited government, but always substantiated by facts and statistics. □

1. Scott Gordon, "The London Economist and the High Tide of Laissez-Faire," *Journal of Political Economy*, December 1955, p. 465.
2. Quoted in *The Economist 1843-1943: A Centenary Volume* (London: The Economist Newspaper Limited, 1983), p. 30.
3. *Ibid.*, p. 39.
4. *The Independent*, December 31, 1988.

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Exporting Taxes Threatens State Economies

by John Semmens

The most popular tax is one paid by someone else. Thus state legislators, in their quest to raise spending without angering local taxpayers, are devising more and more schemes to "export" taxes to out-of-state residents.

These include higher taxes on goods and services most frequently purchased by tourists (e.g., taxes on hotel rooms and car rentals), higher taxes on extraction industries (e.g., oil production and mineral mining), and efforts to collect more taxes from business income earned outside the state through "unitary" taxes. In each case, the targeted taxpayers live outside the taxing jurisdiction, so they won't be able to express their dissatisfaction at the polls.

Economists, however, point out that there are no "free lunches." Everything has a cost. The apparent free lunch to be had from attempting to export the tax burden is illusory. The short-term gains are more than offset by larger long-term losses. What the proponents of exporting taxes fail to see is that they are also exporting the enterprises and job opportunities that could help their state grow and prosper.

When the Constitution was written in 1787, its authors were careful to include a clause prohibiting the federal government from imposing taxes on exports (Article I, Section 9, paragraph 5: "No tax or duty shall be laid on articles exported from any State"). They knew that a tax on a state's exports could devastate that state's economy. They didn't bother to similarly restrict states from taxing their own exports because, apparently, they didn't anticipate that any state would be so foolish.

Attempting to export a tax puts a state at a competitive disadvantage when it comes to importing income and wealth. While it may well be true that nonresidents are nonvoters and as such probably won't have much impact on state and local elections, they are still consumers. Unlike the local taxpayers who may have little choice but to pay the higher taxes imposed by their legislature, the out-of-state taxpayers may more easily take their business elsewhere.

Consider the dilemma of the in-state firms that are supposed to export a tax to their out-of-state customers. If the tax is added to the price of the exported product (as state legislators seem to assume it will be), competing products from other, lower-taxed locations will have an advantage. Tourist attractions in these other locations will become slightly more alluring. Manufactured goods produced elsewhere, perhaps in a foreign country, will gain a small price edge on every unit offered for sale. Consequently, sales revenue for the in-state businesses will fall. Lower revenues mean a smaller business operation, fewer employees, and less economic growth.

On the other hand, if the in-state businesses absorb the tax in order to maintain competitive prices in out-of-state markets, then their profits will fall. The higher profits of out-of-state businesses will become more attractive to investors. Investment capital will tend to flow out of state, which will mean less growth and fewer economic opportunities for would-be in-state employees.

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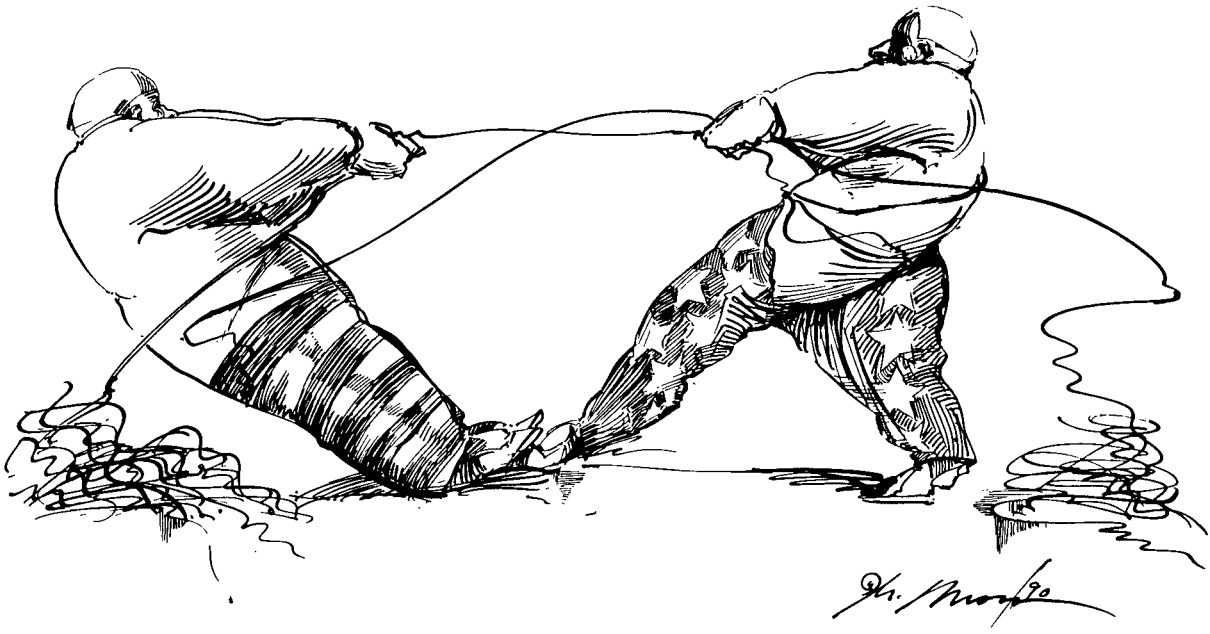

Some proponents of export taxes argue that the rates are too low to have any effect on economic decisions, or that the targeted taxpayers are "locked in" anyway. The locked-in thesis has some plausibility. A mine, for example, is where it is because that's where the ore is located. A tax won't change that. However, a tax will change the relative profitability of the firm or the salability of its output. These small effects at the margin can have large long-term effects on business expansion and choice of business location. Mines in other locations will gain a larger market share. New mines are a bit more likely to be established in lower-taxed locations. A few percentage points of difference in the short run grow into millions of dollars and thousands of job opportunities lost in the long run.

Whether taxes are exported or not, they still remove funds from the private sector. The money that goes into export taxes will be unavailable to invest in tourism, mining, or other businesses, further hurting the local economy.

Economic growth rarely comes in huge leaps forward. More typical is the continuous compounding of modest single-digit growth rates. In a multi-billion dollar economy, a reduction of just a fraction of a percent in the return on investment or growth rates can amount to the loss of billions of dollars of wealth and millions of job opportunities over a single generation.

Both equity and efficiency point away from the policy of attempting to export taxes. A government that rejected the "free lunch" appeal inherent in the exportation of taxes would better serve its constituents. If the residents were disabused of the notion that someone else is going to pay their state government's bills, they would be less tolerant of waste and excessive spending.

The ethos of contemporary tax policy is misguided and, in the long run, self-destructive. A revival of a "no taxation without representation" policy would be more equitable and more profitable for those who adopt it. □

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Children's Television Shouldn't Be Regulated

by T. Franklin Harris, Jr.

There is a familiar cry in Washington these days: "Save the children!" No, it isn't another call for foreign aid to save the starving children of Ethiopia. This time the children in danger are Americans, and the danger isn't starvation, but the state of children's television.

The complaints are nothing new. Peggy Charren, president of Action for Children's Television (ACT), and her group of "concerned parents" have been at it for some time. Their latest campaign has been in support of legislation that reduces the amount of commercial time during children's programming. The legislation, which became law in October, also threatens any broadcaster who doesn't meet the "educational needs" of younger viewers with having his broadcast license revoked by the Federal Communications Commission.

Exactly what, according to ACT, is wrong with children's television? Well, it seems that most of what children watch is "just dumb." Furthermore, children must be protected from "over-commercialization," particularly when it comes to programs which are themselves commercials for a product.

While ACT's complaints may seem well-founded at first, they don't stand up to scrutiny. In the first place, children generally aren't interested in educational programming. They watch "dumb" shows to be entertained. After all, why should children be any different from adults, who scorn "quality" television in favor of sitcoms and soap operas? Every day there is more evidence that the viewing habits of children are similar to those of adults. Game shows, long a staple of adult television, are now appearing as children's programming. One example is the immensely popular game show, "Double Dare." Ms. Charren says that broadcasters should be ashamed of their programs. But there is no shame in providing consumers with shows they want.

Consider, for example, the cartoon "G.I. Joe." "G.I. Joe" was under constant attack for being too violent, mindless, and for being a "program-length commercial" for a brand of "war toys." Critics, however, totally missed the program's good points. In the program's early days, the stories and animation were of very high quality. Story lines were innovative and were written by some of the best writers in the industry, including the highly respected comic book author Marv Wolfman. One story in particular dealt with the children of Vietnam veterans who grew up in Vietnam without fathers and who were outcasts in Vietnamese society. Such programs may not teach children their A B C's, but who can claim that they are not "quality"?

However, when the story and animation quality of "G.I. Joe" began to decline, so did the show's ratings. The "program-length commercial" disappeared from the airwaves even as the toys it was "selling" continued to dominate the market. Quite simply, children tuned in to be entertained. When the fun stopped, they tuned out.

As for "over-commercialization," Ms. Charren

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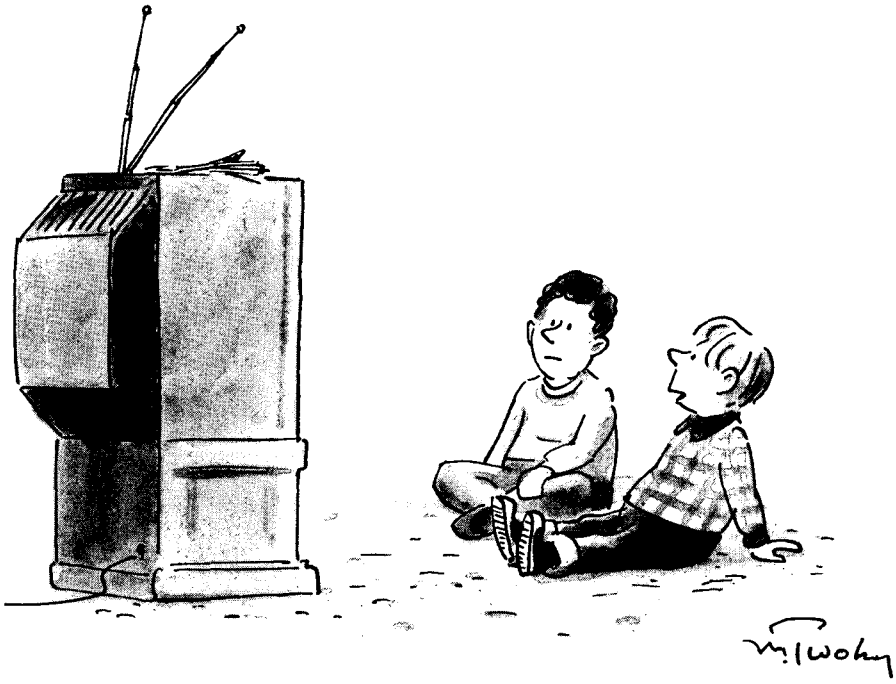

"I like everything Big Bird's ever done."

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and her associates act as if it were a crime for advertisers to aim commercials at their intended audience. It is the advertiser's job to target ads toward children. It would be silly to run advertisements aimed at senior citizens during "Pee Wee's Playhouse." The only people not doing their job are the parents. Their job is to just say "no."

Here is the root of the children's television "crisis." Parents either cannot or will not take responsibility for their children. Parents want the government to step in with controls and regulations so that they won't be put in the position of saying "no" to their children. The fewer commercials children see, the less parents will need to say "no." The less "junk" on television, the less often parents will need to change the channel or turn the TV off. Parents just don't want the hassle of crying children.

The problem goes far beyond children's television. In every walk of life, parents want government to take the responsibility out of parenting. But who ever said that parenting would be easy?

Children shouldn't be deprived of entertainment just because they are young. It is far better to let the ratings figures determine what goes on television than any small group of individuals, no matter how "concerned" they are. □

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Calling the Bluff: Reflections on *Liar's Poker*

by Katherine M. Boudreaux

Liar's Poker by Michael Lewis (Norton, 1989) has been trumpeted as one of a number of indictments of the 1980s, a time when greed reigned supreme and unfettered markets resulted in moral and financial ruin. This near-unanimous interpretation by book reviewers gave me little incentive to purchase Lewis' book. However, with some time between classes this past spring, and a copy borrowed from a colleague's shelves, I did read *Liar's Poker*. The title, it turns out, is indeed appropriate: Lewis wants us to believe that he is baffled by this supposed world of excess in which he participated. But he is bluffing. Lurking behind his clever rhetoric and amusing anecdotes are revealing lessons about what really happened on Wall Street.

One of his most interesting points is that the explosion in the bond market in the 1980s was not the result of new-grown greed on Wall Street, but the consequence of government actions. Because of the worsening problem of inflation during the 1970s, the Federal Reserve, under Paul Volcker, was forced in 1979 to abandon the no-win cycle of continually pumping money into the economy in order to reduce short-term interest rates, seeing rates rise eventually due to the resulting inflation, and increasing the money supply even further to start the whole cycle over again. Instead, the Volcker Fed allowed interest rates to fluctuate while controlling money supply growth. Because bond prices vary inversely with interest rates, increased volatility of interest rates caused bond prices to change more rapidly and dramatically.

At the same time, there was a tremendous increase in the demand for borrowed funds, with the biggest single borrower being Uncle Sam. Bonds are the sole source of borrowed funds for the federal government, and many businesses raise money with bonds as well. The increase in the demand for borrowed funds coupled with the variance in bond prices created tremendous opportunities for entrepreneurs in the bond market, which had previously been a quiet backwater on Wall Street.

When a market is volatile, investors want guidance. Salomon Brothers specialized in providing advice in the heretofore boring bond market, acting as a middleman. As the market struggled to adjust to the immense increase in government borrowing in the early 1980s, investment bankers made a good deal of money advising and selling to borrowers and investors. Naturally, employment in this area grew because of the demand for such services.

The Growth of "Greed"

Do these events signal that people became more greedy during Ronald Reagan's tenure in the White House? Of course not. Ever since the imposition of the Federal income tax, we have had tax accountants, tax lawyers, and tax preparers profiting handsomely. Rather than thinking of

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these individuals as greedy wolves, we tend to think of them as protectors fighting off the incomprehensible, yet dangerously potent, edicts of the Internal Revenue Service. In fact, because government continues to make complex changes in its tax code, this industry continues to have opportunities to profit, whereas the shakedown on Wall Street during the last few years signals that the bond market has adjusted and above-normal profits have been dissipated.

Similarly, change in government policy sparked a market in mortgage bonds. Thrifts and savings and loans (S & L's) were already in bad shape by the beginning of the 1980s. The inflation of the 1970s caught them with many long-term mortgages paying low, pre-inflation rates. With such a low cash flow, thrifts and S & L's couldn't attract depositors. So in 1981, Congress gave the industry a big tax break. In order to get it, however, the thrifts and S & L's were required to sell their existing mortgages.

Although many of these sales turned out to be unwise, they were prompted by the government's tax change, not by financial markets. In 1982, the government tried deregulation, but the industry, battered by the government's actions of the previous decade, weak from protection and regulation, and invested in questionable assets with the proceeds from the mortgage sell-off, could not compete.

Salomon Brothers helped the thrifts and S & L's find buyers for the mortgages and in the course of doing so solved one of the most perplexing problems in the mortgage bond market. Lewis is justly admiring of that invention. Despite the government's attempts since the 1930s to establish a secondary market in mortgages, private mortgage bond placements were difficult because mortgages can be prepaid. In other words, when a homeowner moves and sells her home, she pays off the mortgage. The investor who bought the mortgage from the bank that loaned the money gets the money all at once. This unexpected pay-out can have adverse tax consequences. As a result, the true yield to the investor is altered. Because of this uncertainty, investors were reluctant to buy mortgages. Without buyers (a "secondary" market), banks were somewhat less willing to make mortgage loans.

A Salomon Brothers employee solved this problem by pooling mortgages and selling them in "tiers." Everyone who bought first-tier bonds got paid off before everyone in the second tier, and so on. With sophisticated statistical analyses, Salomon Brothers could predict with relative certainty when the investors in each tier would be paid. Inspired by the increase in the mortgages being offered by S & L's to take advantage of the tax break, Salomon Brothers stimulated the demand for mortgage bonds. In turn, it became easier and less costly for people to purchase homes.

So Salomon Brothers, and presumably other firms with expertise in the bond area, profited not because of an explosion of greed but because of changes by the government. Lewis explains these causes for those who care to pay attention and understand. He does not, however, analyze the labor market as clearly as he does financial markets.

Maligned Middlemen

Bond salesmen, such as Michael Lewis and the character of Sherman McCoy in Tom Wolfe's *Bonfire of the Vanities*, use the recommendations of bond analysts and their own experience to sell bonds. Lewis claims still not to understand what he was paid to do by Salomon Brothers. Perhaps this is a reflection of age-old negative feelings about middlemen. It is easy to see what the farmer does because the food on the plate is so obvious. But what exactly did the agricultural cooperative, the grocery wholesaler, and the supermarket do that justifies the difference between the price the farmer got and the price paid? The contributions of middlemen, which range from tangibles such as transportation to intangibles such as display, marketing decisions, and advice, have provoked suspicion since the division of labor became predominant in trading societies.

Lewis is particularly disingenuous when it comes to his own background. His art-history major at Princeton and part-time jobs between college and graduate school are detailed to illustrate his lack of preparation. His master's degree in economics from the London School of Economics gets short shrift. Lewis says that his $46,000 starting salary, the same as what an M.B.A. would earn, felt like "lottery winnings." Perhaps this is professional sensitivity on my part, but I believe that a graduate degree in economics from one of the world's finest programs is at least as good as an M.B.A. More tellingly, however, Lewis misunderstands the theory of wage determination.

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***Michael Lewis, author of* Liar's Poker.**

People are not paid according to some intrinsic value of their product (a favorite idea of Marx's), or what they "deserve," as Lewis puts it, but according to the worker's physical productivity plus what people are willing to pay for the product. Thus, Madonna is paid an enormous sum because she sings and dances in a way that people find entertaining.Investors valued Michael Lewis' advice and services as a bond salesman in a market stimulated by the government, and so he earned a lot of money. Both Michael Lewis and Madonna may find their financial success astounding, but that hardly matters.

Lewis plays a lot on his amazement that he was paid a high salary even when he first went out on a trading floor. It is true that there is what economists call a "learning curve," and probably Lewis' advice was not worth so much at first as it was after he had gained experience. However, Salomon Brothers was not irrational to pay relatively high wages to Lewis when he was fresh out of school, because it is costly to adjust wages frequently. For example, despite the fact that I was recently delayed at a service station by a new employee who did not know how to work the register, I am certain that his wage wasn't different two days later when he knew how to do it. Eventually Lewis admits that the business he brought in generated far more revenue for his employer than he was paid.

All Parties Gain

Lewis also never quite catches on to the fact that all willing parties to a bargain gain. He writes as though he is continually duping his customers, yet also writes of being tied in to some of Europe's largest money pools, run by people Lewis describes as "quick, aware, flexible, and rich." He indicates that he has customers who trust him. These contradictory ideas are not resolved. I suspect that Lewis cannot quite get beyond his knowl-

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edge that Salomon bought the bond at one price but he can sell it at another, higher price. Which is the real price? Isn't someone getting ripped off?

Suppose I go to an auction and buy a piece of furniture. Later I sell it at a yard sale for more than I paid for it. Who's the loser here? The original owner could have withheld the piece if the auction price wasn't high enough, so he must have been satisfied. The yard-sale buyer must have thought the furniture was worth it because she paid the price. And I got something for transporting it from the auction, where the yard-sale buyer was not present, to a place and time when she was available. Everyone wins—there are gains from trade for everyone. This is the idea Lewis misses.

Lewis does offer some interesting insights into junk bonds and takeovers. He admiringly describes Michael Milken's role in providing capital to relatively small but high-growth firms who are shut out of bond markets. These high-yield ("junk") bonds turned out to be such good investments that the demand outstripped the supply. According to Lewis, Milken then conceived the idea of using junk bonds to purchase undervalued companies and put their resources to more efficient use.

But Lewis realizes that, contrary to some economists' specific belief and the unspecified public myth, markets are not perfectly efficient. Some takeovers fail because investors were wrong about the value of the company and the amount of debt that could be carried. The result is bankruptcy. A competitive market punishes such mistakes.

The attempted takeover of Salomon Brothers as described by Lewis is an example of another type of failure. The "raider" in question is known for—gasp!—firing inefficient management. Not surprisingly, the existing Salomon management fought off the takeover with stockholder assets, costing both stockholders and employees. Recent trends in state legislation, unmentioned by Lewis, make it easier for existing management to engage in this unscrupulous behavior.

But which is worse—layoffs of inefficient employees in order to create a more profitable firm that the so-called raider needs, or the seemingly random layoffs made by inefficient management needing funds to pay for fighting the takeover? Lewis admits that after Salomon's rousing success in the early 1980s, the management missed some important calls and was overstaffed. Using stockholder assets and his personal friends on the board, the chairman saved his job. The firm did cut back, but the cutback was executed by the same folks who had engineered the firm into the current unprofitable position. Salomon couldn't even hold onto one of their most (in the author's own estimation) profitable people—Lewis himself.

What I learned from *Liar's Poker* was that even a writer intent upon disguising reality can't cover up the government's role in events. Government actions inevitably have unintended consequences, many of them undesirable, many long-term. We should, for example, look to the government as well as the private sector, and well before the 1980s, if we want to understand the S & L crisis. I also learned that in order to make real-life behavior conform to the popular conception of life on Wall Street, writers such as Lewis have to be able to fool themselves.

Far from being a condemnation of private behavior in the greedy 1980s, Lewis has presented us with convincing evidence that the government should stay far out of financial markets. Of course, to make the book a best-seller, he included a lot of juicy details that disguise this point. Michael Lewis is a smart guy, which is why he succeeded on Wall Street. So read his book—but call his bluff. Read between the lines. □

Coming Next Month . . .

- **"Resurfacing the Road to Serfdom" by Susan Marie Szasz**
- **"Lessons from the Road: The Evolution of an Eatery" by John Baden**
- **"The Charade of Participatory Democracy" by Ridgway K. Foley, Jr.**

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Mises: The Impact of Ideas

by William H. Peterson

Ideas direct thinking, govern lives, and forge history. The impact of ideas is a theme that echoes and re-echoes in the works of Ludwig von Mises (1881-1973). Mises held that man is a thinking and acting being, that his values are highly subjective, that he can be swayed by political parties and spurious doctrines, that choosing determines every one of his decisions, that he should never relax in his quest for truth, that in the end his only weapon in the war on error is reason.

Mises held further that correct ideas are crucial to the human race, that the very essence of the human condition is the inescapable and insurmountable dualism of that condition: the dualism of man's two separate, distinct, unbridgeable, and not always perceptible or completely understandable realms.

One realm is physical, the outer world of corporeal, material, external reality—the reality that impinges on the senses, the things we can see, hear, taste, touch, and feel, the reality that reflects such mysterious earth forces as energy, gravity, electricity, and rotation. This, too, is the world of not-always-hospitable nature, of what Darwin viewed as the struggle for existence and survival of the fittest for all the earth's species.

It is also the external world of chemistry, physics, biology, physiology, geology, meteorology, and other hard "natural" sciences that help unlock some of the mysteries of the universe, of the world of flora and fauna, of tooth and fang, of earthquakes and hurricanes, of droughts and floods, and of—insofar as economics is concerned—stark scarcity.

The other realm is mental, abstract, intangible, almost ethereal, the inner world of the individual and his unique individuality, of his different and changing *ideas,* thoughts, ends, feelings, values, aims, missions, emotions, goals, intentions, purposes, ideologies, and traditions, the internal world of reason and reasoning, including false reasoning, the broad and largely uncharted universe of the human mind.

This is, in addition, the internal world where man ineluctably has to align and realign, continuously, his chosen ends with chosen means, to cope, again continuously, with endless scarcity, with the ceaseless change long ago spotted by Heraclitus, with social relations, religious questions, political problems, family matters, and all other praxiological concerns.

It is this inner realm—impacted by ideas—that generates thinking, that stirs emotions, that impels human action, that facilitates change for better or worse, that alterably shapes and shakes the future and, to a degree, the outer realm, that makes or breaks social cooperation, especially via politics, that sows peace or wages war—that hence determines man's fate—in the past, present, and future.

So, to repeat the observation of Mises, ideas direct thinking, govern lives, and forge history. Which is why *Economic Freedom and Interventionism: An Anthology of Articles and Essays* by Ludwig von Mises as selected and edited by Bettina Bien Greaves (Foundation for Economic Education, Irvington-on-Hudson, New York 10533,

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250 pages, $29.95 cloth, $14.95 paper) is so vital and timely.

This fistful of ideas, this welcome and most readable book (with sideheads to ease the reading further) constitutes another chance for the West to re-examine the remarkable thought of a giant of our age. It marks another intellectual tie to the Mises legacy of understanding man's critical spheres of economics and politics, of telling us what we can do about them before it is too late. It is hence a book on human survival as well as human understanding.

Mrs. Greaves, a close friend of Mises and a faithful student in his famous graduate seminar at New York University, notes that she collected some of these articles from Mises himself and others from such sources as the Institute for Humane Studies, Liberty Fund, Regnery Gateway, *National Review*, *The Freeman*, and *The Commercial and Financial Chronicle*. She thoughtfully collates the 47 pieces, most of them out-of-print or not easily available, into four sections: Economic Freedom, Interventionism, Mises As Critic, and Economics and Ideas. Ideas of course permeate the entire anthology—much-needed ideas of a most constructive sort.

Take the Marxist idea of class conflict, for example, and the Mises idea in response. In an article reprinted here from *Christian Economics* of October 3, 1961, Mises takes Marx to task. Mises notes how the emerging market or contractual society of some two or three centuries ago soon obliterated the class lines drawn by serfdom and slavery.

Yet, maintains Mises, class or status survives today only by government fiat in such dubious taxonomy and forms as subsidies (which views farmers, for example, as a class), discriminatory taxation (which converts, among others, smokers, drinkers, and the rich into classes), affirmative action (which converts race and gender into classes), and union privileges (which transform employees into a class). So classes today become legal fictions and, by law, social frictions. In this sense, Marx's class struggle does persist, an undeserved triumph for the Left.

Indeed, in the posthumously published third volume of *Das Kapital*, observes Mises, Marx was at his wit's end on how to sustain the validity of his dogma of the class struggle. He failed to solve the puzzle and so abruptly ended his manuscript with but a one-page chapter (the 52nd) on "The Classes," with his editor Friedrich Engels succinctly noting: "Here the manuscript breaks off." But Marx died many years after he ceased work on his major opus; and Mises sees that Marx had painted himself into a corner, simply unable to put forth a credible definition of classes in a capitalistic age.

Or consider the Keynesian idea of the business cycle. In an article here reprinted from *The Freeman* of September 24, 1951, Mises attacks that idea in commenting on Keynesian Alvin Hansen's book, *Business Cycles and National Income* (Norton, 1951). In it Harvard Professor Hansen upholds the concept of counter-cyclical macro-demand management by the government, dwells on such supposed causal factors as general overinvestment and overproduction (thereby ignoring the insight of classical economist Jean Baptiste Say and his Law of Markets), and castigates those who see credit expansion and inflation as the underlying causes of the cycle.

Rebuts Mises with a better idea: "People must learn that the only means to avoid the recurrence of economic catastrophes is to let the market—and not the government—determine interest rates. There is but one pattern of positive counter-cyclical policies, viz., *not* to increase the quantity of money in circulation and bank deposits subject to check. Deficit spending by borrowing from the commercial banks is the surest way toward economic disaster."

Or look at the idea of government interventionism and the alleged need for supernational governments such as the European Community (which comes into full force in 1992). In a 1955 article commenting on *How Can Europe Survive?* by Hans Sennholz (Van Nostrand, 1955), Mises hails the Sennholz idea that the economic disintegration of then un-united Western Europe is hardly the outcome of the unhampered operation of the capitalistic market order.

It is rather, holds Sennholz, seconded by Mises, the result of the various West European governments (some ruled by outright socialist parties) erecting welfare states, interfering with domestic industries, even nationalizing some of them, restricting foreign trade and investment, and engendering economic retaliation in return. The further result is—no surprise!—widespread economic isolationism and consequent European disintegration, even though this disintegration did eventually lead to the concept and implementation

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of a European Common Market, now known as the European Community (EC).

What makes the Mises-Sennholz discussion so relevant if not poignant today is the political and economic context of this big and growing EC, which may one day conceivably take in part or all of the once-Eurocommunist Bloc. For while Marxism has gone down in ignominious defeat in Eastern Europe, is it not relevant to inquire: How are the Misesian ideas of the unhampered market society now faring in the EC halls in Brussels and Strasbourg, and in the respective capitals of the EC member countries? Answer: Not well.

For is the talk there not still, paradoxically, Marxian, i.e., about the "need" for farmer protectionism, welfare measures, and other "social democracy" impediments to the free trade idea? Which raises in turn this question: How does the EC propose to treat in the years ahead the foreign trade and investment of non-EC member countries such as the United States and Japan seeking to do business inside the Community? Or, to put this question more bluntly: Will the EC, perhaps under the pressure of a global recession, revert to Western Europe's economic isolationism of the 1950s, perhaps even with an economic *Festung Europa* hiding behind high tariff and import quota walls?

Comments Mises (again the year is 1955): "As long as there is domestic interventionism, the present unsatisfactory state will last. The funds spent by the U.S. taxpayer for the economic unification of Europe were wasted."

Or consider the idea of land reform now so pertinent in an era when private property rights throughout the West are still unclear, when further decisions on just how to reallocate—hopefully, to privatize—the huge, literally millions of square miles of formerly state-held lands of Eastern Europe, including the Soviet Union, have to be made. Too, land reform is still a major issue in much of Latin America where landlords continue to operate large coffee, sugar, banana, and other plantations.

In a contribution (beautifully entitled "On Some Atavistic Economic Ideas") to a 1966 *Festschrift* for Jacques Rueff, previously available only in French translation, Mises again supplies superior ideas on land reform that illuminate the background behind today's headlines.

Mises says the program of land reform, including confiscation and redistribution—usually in small equal parcels to the "peasants" or "citizens" —no longer makes sense in a capitalistic market economy. He observes how in a market society the consumers daily vote anew on just who should own or not own the factors of production, including land. All on a voluntary basis.

Thus by their buying or abstention from buying, the consumers decide who should be allowed to be entrepreneurs and who should supply the other productive factors of land, labor, and capital. In other words, the consumers determine just who should operate the factors in the best and cheapest way for the satisfaction of their own wishes and needs.

Entrepreneurs and other land and non-land factor owner/operators who do not measure up to these consumer wishes and needs are in effect assigned losses and soon turn to other pursuits. Factor owners who do measure up are rewarded with profits or other returns and so tend to expand their operations. It follows that economic resources flow toward their social optimum and that the consumer is not only sovereign, but a dictator as well: ruthlessly direct, sparing no one, least of all the landowners however large.

Now, what of the idea of official favoritism for debtors (the "poor") over creditors (the "rich")? Governments historically and contemporaneously have long followed such an idea, from Solon in Ancient Greece and the Gracchi brothers in Ancient Rome on to our present Congress and to parliaments the world over. Here also, argues Mises in his reprinted contribution to the Rueff *Festschrift,* the idea is to see that the capitalistic system already has radically altered the scheme of things. He writes:

> Under the modern credit organization the more opulent strata are more often debtors than creditors. They own mortgaged real estate, business firms that are indebted to the banks and insurance companies, [and] common stock of corporations that have issued corporate bonds. On the other hand the common man is a creditor insofar as he has taken out insurance policies, has savings deposits with commercial banks and savings banks, owns bonds whether government issued or corporate, and is entitled to receive retirement and old age pensions.

Thus the irony of modern-day deficit spending

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ECONOMIC FREEDOM AND INTERVENTIONISM by Ludwig von Mises is available in cloth at $29.95 and in paperback at $14.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

and easy money ideas is that they are at once popular—buttressed by conventional wisdom in high academic and political places—and yet run directly counter to the interests of the broad populace. These ideas breed inflation and recessions. Since the end of World War II they have spelled the destruction of literally trillions of dollars in the total value of savings in bank deposits, insurance policies, and pension funds, public and private, including the savings of hundreds of millions of low-income and middle-income people. Currently the inflationary cancer induced by these ideas is and has long been global; and governments and central banks, trapped by false ideas, seem helpless to stop it—*even though they could, given the right ideas.*

Ideas. Ideas. As John Maynard Keynes himself, the champion of deficit spending and demand management, the supposed colossus of economic thought in the 20th century—when that colossus is properly Mises—noted in a flash of discernment at the tail-end of his otherwise misguided major opus, *The General Theory of Employment, Interest and Money* (1936): "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. . . . It is ideas, not vested interests, which are dangerous for good or evil."

Or as Bettina Bien Greaves puts this matter in the foreword of this remarkable book: "One recurring theme throughout Mises' writings is that men act on the basis of ideas. Today is the product of past ideas. And the ideas of today will produce tomorrow. The idea that government has the power to cure almost any social ill permitted big government to triumph throughout the world. To reverse this trend, to create a world of free markets, to change governments, to repeal government programs, the ideas men hold must be changed."

Amen. □

INVISIBLE VICTIMS: WHITE MALES AND THE CRISIS OF AFFIRMATIVE ACTION
by Frederick R. Lynch

Greenwood Press, 88 Post Road West, Box 5007, Westport, CT 06881 • 1989 • 237 pages • $37.95 cloth

Reviewed by Steven Yates

Has "affirmative action" brought us closer to an equal opportunity society? Or has it limited opportunities for younger white males by reverse discrimination? Is it compatible with the principles of a free society—or does it run counter to them?

For a key part of this new study, sociologist Frederick R. Lynch interviewed 34 white males who blamed reverse discrimination for having lost out on jobs or promotions. Their politics crossed the spectrum from conservative Republican to liberal Democrat (though some found their views shifting rightward as a result of their experiences). Their backgrounds ranged from middle to working class. Many taught or were administrators in colleges and universities—unsurprisingly, since the schools have long been hotbeds of affirmative action. Others included Federal and state employees, corporate analysts, correctional officers, firefighters, cameramen, and so on.

Their reactions to reverse discrimination ranged from confused acquiescence and cognitive dissonance, to resigned acceptance, to anger and hostility—and in a few cases, emotional devastation. Many quit their jobs or even changed careers out of frustration, though a few were clever enough to circumvent the system through various ruses. Several filed reverse discrimination lawsuits, some still pending. None, so far, has been successful. White males, they discovered to their surprise and dismay, have little in the way of legal recourse in discrimination cases.

Whatever the original intent of calls for "affirmative action," obviously something went badly wrong. Lynch spells out perhaps more clearly than anyone before him just what.

First, affirmative action has generally been imposed from the upper echelons of government downward, usually through the courts. Private corporations have often "voluntarily" implemented affirmative action plans to avoid discrimination investigations at the hands of bureaucrats and Federal judges. *Second*, these plans have been carried out mostly by word of mouth—word "comes

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down but does not go out," as Lynch describes it. *Third*, institutions implementing such plans were on shaky legal ground from the start—after all, the Civil Rights Act of 1964 openly repudiated preferential treatment. Fear of lawsuits further explains the secrecy. *Fourth*, this secretive aspect of affirmative action has often kept its victims in the dark, and indeed has made it difficult to determine the extent of reverse discrimination. In those cases where white males knew they were victims, there was little in the way of "paper trails" or other evidence that would hold up in court. *Fifth*, and perhaps most important, a taboo on all open discussion of the subject—a New McCarthyism, Lynch calls it—has created a climate of deception and intimidation and led to a "spiral of silence." The deception is that affirmative action has public support, when in fact over 80 percent of the public opposes quotas. The victims, though, have hesitated to say anything for fear of being labeled racists.

An important tenet of the New McCarthyism is that white males should "bite the bullet"—they are a numerical majority in a society with a racist and sexist past, so by definition they *can't* be victims. They must be covering up for their own failures. Because of such ideologically rooted but widely promoted doctrines, would-be critics, too, have found themselves under pressure to keep silent; Lynch himself reports reluctance to discuss his research when it was in progress.

He singles out both the mass media and academic sociology for special criticism. Until the *Bakke* case, affirmative action was blacked out by the media; even afterward, public discussion was fraught with tension and evasion. Conservatives who have long accused the media of a left-liberal bias will find their views vindicated, on this issue at least. Lynch tells of an even worse bias deeply rooted in academic sociology, and, indeed, throughout *academe*, where collectivism has long flourished and bred intense pressures to conform to an official party line. Tenure has been almost a must for vocal critics; those who speak out often find themselves facing open hostility.

What emerges from *Invisible Victims* is a disturbing portrait of left-liberal social engineering run amok, carried out in open disdain for the public and for merit-oriented values, and surrounded by a campaign of distortion, intimidation, and silence. Lynch, if he is reviewed at all in academic journals, will be accused of generalizing from too small a sample. He may, of course, be accused of far worse, e.g., of being a "racist" himself (or in league with the "racist status quo").

This, though, would be unacceptably *ad hominem*. Independent evidence confirms widespread reverse discrimination; polls cited by Lynch such as that of Gordon Black Associations (1984) indicate that at least one white male in ten has had at least one such experience. From the years 1980-83, over 1,500 complaints against public institutions alone were filed with the EEOC. Lynch's discovery of the reluctance of white males to speak out suggests that the problem is in fact much worse than what direct statistical evidence reflects.

Invisible Victims belongs in the library of everyone concerned about the impact of affirmative action on American society. It should be read by Federal bureaucrats, university administrators, and media moguls. Despite the left's belligerent denials, the suspicion is unavoidable that runaway preferential treatment is a major cause of racial unrest on college campuses and elsewhere. Young white males, after all, in general have committed no offenses against blacks and women, and realize instinctively that justice is not being served when they are routinely sacrificed in the name of ill-defined social goals instead of treated as individuals and judged on their own merits. Lynch's research suggests a growing body of "underground" resentment against affirmative action, and I predict a real donnybrook somewhere down the road if the problems it has created are not faced. □

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ECOLOGY IN THE 20TH CENTURY: A HISTORY

by Anna Bramwell

Yale University Press, 92A Yale Station, New Haven, CT 06520
1989 • 292 pages • $40.00 cloth; $16.95 paper

Reviewed by Ben Bolch

Anna Bramwell's *Ecology in the 20th Century: A History* is the single most enlightening, and frightening, thing that I have yet to read about the radical environmentalist movement. It is a book that can be recommended without reservation to anyone who has become concerned with the excesses of this movement.

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Bramwell points out that while environmentalists are now on the extreme left of the political spectrum, the movement apparently began in late 19th century Germany as a science-based anti-democratic crusade which found its first coherent political expression in Nazi Germany. In fact, she notes, the Third Reich was the first government to be dominated by extreme environmentalists.

Bramwell documents the rise in power of the Greens. This movement, of course, does not derive from any actual environmental difficulty, but rather from a gathering of a whole host of the discontented, including anti-nuclear pacifists, anti-Semites, anti-Christians, sun-worshippers, and simple haters of technology and the market process. It is a movement which cloaks itself in scientific rhetoric, a kind of public relations rationality which masks deep-seated irrationality: in "Green-science," for example, conclusions (such as global warming) are announced before the research is done.

But even more fundamental to the Green movement is the paradox of mankind's being at the same time one with nature and the destroyer of nature. The Green movement's muddy thinking extends to the presumed capability of mankind to care for nature only when coerced from above by massive government programs. This stance ignores a clear history which shows that government-controlled economies such as those in Eastern Europe have been more ecologically harmful than have those with greater market orientation.

Bramwell points out that the shift from right to left, or from Nazi to currently respectable brands of socialism, was necessitated by the outcome of World War II. Such a seemingly bizarre switch is surprising only to those who remain ignorant of F. A. Hayek's admonition concerning the correspondence of all forms of totalitarianism. Bramwell notes that the witch cult of PAN (Pagans Against Nukes) continues to worship at the same standing stones as were revered by the pagans of the Third Reich and that the tree fetish of today serves to remind us of the tree-planting obsession of the Nazis (a large part of conquered Poland was devoted to tree planting, and the oak leaf was the symbol of the SS). In historical context, the growing violent streak in the Green movement as exhibited by such organizations as Earth First! is quite easy to understand.

Technology and the marketplace are showcased by the Greens as the major culprits of man's fall from natural grace. Interestingly enough, Bramwell points out, technology is more acceptable if applied in a rural rather than an urban setting, but the complaint against the marketplace is absolute: any trade at all is a symptom of "lack of balance." If, it is argued, we were balanced and self-sufficient, no trade would be necessary. What we must do, say the Greens, is to define balanced geographic zones where trade is allowed solely within each zone. Who is to establish these zones of autarky is, of course, never specified.

Bramwell correctly concludes that much of this new nature worship is nothing less than a death wish. One cannot help but be reminded of ancient stone carvings such as those of the Maya which show the blood of human sacrifice pouring upon the ground to nurture the soil, or, for that matter, of the "Blood and Soil" aphorism of the Third Reich. Mankind is expendable, which is why little or no thought is given to the ability of five billion or so people to live on this planet in the absence of continuing high levels of technology, trade, and economic growth. The human sacrifice of ancient nature cults, or of Nazi Germany itself, pale in comparison with what can be contemplated here.

A recent poll by the National Association of Business Economists found that a large fraction of its membership is highly concerned over the increased stringency of environmental regulations, restrictions which as often as not make no sense from either the environmental or the economic point of view. Economists need to understand that the Green movement will not go away. On the contrary it will surely grow in size not because of worsening environmental problems (especially in the U.S.) but because the movement appears to be almost infinitely flexible in accommodating the discontented of all points of the political spectrum. It is to Bramwell's credit that she points out to us that those who profess a superior concern over nature are not necessarily morally better than those of us who are less fanatical. We need not continue to bestow upon this group the kind of mindless political homage that it has enjoyed in the recent past. A renewed insistence upon economic rationality is long overdue. □

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